MWRA Advisory Board

Advisory Board Meeting

Thursday, February 16, 2017
11:30 AM

Wellesley Free Library
530 Washington Street
Wellesley, MA 02482

Attendees (Voting Members)

Michael Rademacher	Arlington	Amy McHugh	Marblehead
David Manugian	Bedford	Elena Proakis Ellis	Melrose
Michael Bishop	Belmont	Lou Taverna	Newton
Jay Hersey	Brookline	Bernie Cooper	Norwood
John Sanchez	Burlington	Jeff Zager	Reading
Tim MacDonald	Cambridge	Brendan O'Regan	Saugus
Jason Mammone	Dedham	John DeAmicis	Stoneham
Blake Lukis	Framingham	Patrick Fasanello	Walpole
Robert Higgins	Hingham	Walter Woods	Wellesley
Ralph Pecora	Lexington	Joe Lobao	Wilmington
James Finegan	Lynn Water District	J.R. Greene	Quabbin-Ware Watersheds

Other Attendees

Andrew Pappastergion	MWRA Board of Directors	Mike Hornbrook	MWRA
Sam Corda	Cambridge	Sean Navin	MWRA
Matthew Bradley	Wakefield	Kathy Soni	MWRA
Eric Sherman	Wakefield	Tom Durkin	MWRA
Michael Goodwin	Wellesley	Louise Miller	MWRA
Mike Pakstis	Wellesley	Matt Horan	MWRA
William Shaugnessy	Wellesley	Joe Favaloro	Advisory Board
Jeff Mahoney	UCANE	Matt Romero	Advisory Board
Lexi Dewey	WSCAC	James Guiod	Advisory Board
Andreae Downs	WAC	Lenna Ostrodka	Advisory Board
Fred Laskey	MWRA	Cornelia Potter	Advisory Board
Ria Convery	MWRA		

46 people were in attendance, including 22 voting members.

February 16, 2017
Wellesley Free Library
530 WASHINGTON STREET
WELLESLEY, MA 02482 11:30 AM

Draft Minutes

The Chairman called the meeting to order at 11:39 am.

A. RECOGNITION OF WALTER WOODS'S 32 YEARS PARTICIPATION ON THE ADVISORY BOARD

Mr. Favaloro opened the meeting with a recognition of Walter Woods's more than 30 years of service on the Advisory Board. Mr. Laskey noted the range of interests and analyses Mr. Woods had offered as a representative to the Advisory Board, and presented him with a framed picture of many of the annual field trips that he had attended. Chairman Taverna noted that Mr. Woods had served on the Advisory Board since "day one" as Secretary, Chairman of the

Joseph E. Favaloro, Executive Director
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Operations Committee, and as Chairman of the Advisory Board. He presented Mr. Woods with a mantle clock and praised his strong voice and his service as a strong advocate. Mr. Woods reviewed some of the history of the Authority, and acknowledged the high quality of the staffing of the agency, and that in the course of spending the multiple billion dollars, there had never been negative publicity regarding anything that had been done.

B. APPROVAL OF ADVISORY BOARD MINUTES FOR JANUARY 19, 2017

A motion was made and seconded to approve the minutes of the January 19, 2017, meeting of the Advisory Board. The motion passed unopposed.

C. REPORT OF THE EXECUTIVE DIRECTOR

Mr. Favaloro reported that the MWRA Board of Directors, at the meeting of February 15, 2017, had a discussion on the redundancy plan for the Metropolitan Water Tunnel System, and voted to approve the alternative to construct northern and southern deep rock tunnels and to direct the staff to proceed with preliminary design, geotechnical investigations, and MEPA review of the project. Incorporated into the vote were the recommendations voted on by the Advisory Board to include a PMD management approach, the concurrent construction of north and south tunnels (rather than a phased approach), and the use of revenue from non-typical or one-time water users to help fund the program.

[Other topics and updates from the Executive Director are included below, under "Committee Reports."]

D. PRESENTATION OF THE STATE AUDITOR'S REPORT ON WATER INFRASTRUCTURE

Mr. Taverna introduced Tom Champion from the Division of Local Mandates Office of the State Auditor. Mr. Favaloro noted that both he and the speaker serve on the Water Infrastructure Alliance; the fact that the State Auditor's voice has been added to the discussion on infrastructure can only eventually lead to the introduction of funding for water and sewer infrastructure.

[A one-page summary of the report and a copy of the full report were provided.]

The Division of Local Mandates was created in 1980 as part of the Proposition 2 ½ tax initiative to determine if a proposed or existing state law imposes an unfunded mandate on a city or town and to provide an analysis of the financial impact. The water infrastructure commission in 2012 identified a $20.4 billion funding gap between resources at the local level and expected requirements across the face of water infrastructure systems (drinking, storm, and wastewater). Since that time, a number of regulatory and programmatic changes have occurred, and the effects of climate change including the recent drought have been a useful to think longer term about other water infrastructure needs. This report was designed to create a holistic look at all of water infrastructure (looking across drinking water, stormwater, and wastewater as part of one larger system and to think regionally). Cities and towns were surveyed directly about their funding sources, their use of state loans and grants, and their adoption of innovation strategies. Twenty percent of the responses were from MWRA members.

Among the findings was that there is a $17.8 billion spending plan in the aggregate for water spending needs. The $1.58 billion gap identified is clearly low. The total is almost certainly higher. But even at nearly $18 billion, it is close to the $20 billion identified by the Water Infrastructure Commission at the state level. The recommendations include expanding the state revolving fund to provide not only low interest loans and limited principal forgiveness, but also full grants requiring no repayment at all. Adopted was the Water Infrastructure Commission recommendation that the state establish a new trust fund for water infrastructure (in 2012 it was for $200 million per year for 20 years and was not funded by the Legislature).

The report now recommends at least $50 million per year for the next 10 years to at least establish that the state is going to put more money into the system and to build the value of the program. It will serve to support a sustainable economy and maintain quality of life across the Commonwealth.

The second finding identified $1.6 billion in municipal funding to support the MS4 permit compliance. This is a low estimate and can be expected to be higher. The estimate does include $240 million per year in additional personnel costs. Based on this finding, it will be necessary to create dedicated stormwater enterprises similar to local water and sewer enterprises.. At the moment there are only nine communities that are authorized to have stormwater fee and only six communities that have actually put them into effect.

The third finding is that for most communities, regional collaboration remains a goal, rather than a reality. Communities need to band together and share resources. The Legislature should approve bills to promote regional collaboration by simplifying the processes of creating regional public entities that have the power to operate facilities as well as to plan across municipal jurisdictions.

The fourth finding is that communities might not be taking full advantage of current loan and grant programs. DEP does a very good job through its Division of Municipal Services, educating communities about the advantages of getting financing through the state revolving fund. There are other mechanisms available for lower rate financing, but a lot of communities don't go that route because it is more trouble in terms of the benefit they derive as opposed to bonding things on their own. Alternately, they simply do not have the money, since it has to be repaid. The report recommends that the state do more to enhance municipal eligibility by reviewing repayment options and further expanding the capacity of state agencies to reduce or forgive principal repayments for smaller projects. The state should consider additional funding to help with outreach, and, as previously noted, to provide more money in the form of grants rather than in the form of loans.

The fifth finding relates to the effects of climate change. Only six percent of survey respondents indicated that they had developed any climate change plans or policies that affect water infrastructure systems. The Governor's executive order (number 569) on climate change, which has not received much publicity, requires cities and towns to do resiliency planning but provides no resources for that purpose. The recommendation includes language that the administration should convene a statewide summit on climate change on the implications for municipal water systems.

The sixth finding is that there continues to be a low rate of adoption of innovative technologies that can reduce costs and increase efficiency. Only 18% of respondents reported adopting innovative technologies to achieve cost savings, enhance system capacity or improve the performance of their water infrastructure systems. The Operational Services Division in the Division of Capital Asset Management review their regulations and practices to spur the adoption of innovative technologies. The report also endorses the adoption of legislation to create an Innovative Communities Office within the Executive Office of Housing and Economic Development to coordinate the introduction of cutting edge technologies into the marketplace and provide incentives for the adoption of some of these technologies by municipalities. Also recommended is the creation of legislation that would provide interest rate and/or principal forgiveness on projects that may require additional investments if those technologies meet performance standards.

The seventh finding is that municipalities should favor state administration of stormwater permits. Ninety percent of the respondents with an opinion said they would prefer that DEP take over the administration of NPDES administration in Massachusetts just like the state agencies in 46 other states and that they like the permitting processes already in place for drinking water and wastewater. However, funding should not just be from the General Fund, but also from different sources of funding including fees that could be collected by municipalities from ratepayers. DEP should be able to work with municipalities to develop ten-year rolling investment compacts that provide greater stability and predictability for communities in allocating water system dollars.

One other recommendation is that new grant program ($50 million per year for ten years) be prioritized so that the communities that bring regional solutions to the state for funding get first crack at the funding. This is one of the best ways to ensure that more communities adopt this approach.

The report is available online: www.mass.gov/auditor

E. MWRA'S PROPOSED FY18 CAPITAL IMPROVEMENT PLAN

The presentation was provided by Kathy Soni, Budget Manager, CFO Tom Durkin, and COO Michael Hornbrook. Mr. Durkin opened the discussion by noting that the capital improvement program is a process starting around Labor Day with discussions with the engineers and construction staff. On December 14, staff presented the proposed program and budget to the Board of Directors for approval to transmit the document to the Advisory Board for their annual review and comment process.

Each CIP is part of a five-year window. FY18 is the last year of the current five-year period (FY14-18). The next five-year cap period begins next year with FY19. The FY18 CIP complies with the current spending cap. The cap adjusts every year to the provision of the five-year maximum spending level that had been approved at the outset of that period. Each year will have its own variance to the budget. This year the budget focuses on asset protection and long-term redundancy, especially following the substantial completion of the Combined Sewer Overflow Control (CSO) Program in December 2015. No longer will the capital program focus on large, problem-solving, exciting, ribbon-cutting types of projects like Deer Island, the Carroll Water Treatment Plant, or the MetroWest Tunnel. The financing shift and the strategy is primarily asset protection and long-term redundancy, a focus on maintaining the assets. The "new" Deer Island plant is now over twenty years old, so the focus of the staff shifts to maintaining that asset (e.g., electrical systems).

Once the assets have been established, there is a different financing focus on how to approach the capital plan. A big component of this CIP is that it contains a $1.4 billion placeholder for metropolitan water tunnel redundancy. Now that the Board of Directors has approved the concept for the project, the engineers will start to develop more detailed plans which will provide the basis for the next level of contracts for future Board approvals.

These big projects put the focus on Treasury, the issuance of bonds, and the related debt. Though the level of debt continues to be reduced, the Authority is now borrowing less than is being repaid. In 2012, the Authority hit the peak of its indebtedness, nearly $6 billion. That level continues to come down, and is now nearly $6.2 billion.

Ms. Soni reviewed the status of the current five-year spending cap. When the FY14-18 cap was established, it reflected a reduction in five-year spending to within $800 million, as compared to higher levels of spending in the prior two cap periods. With the proposed FY18 budget, cap-related spending is proposed to be at the $550-million level. This includes approximately $170 million in budgeted capital spending for the year ahead. Some of that proposed spending reflects the planned award of $203 million in new contracts, which, in turn, will drive future year spending.

There are three components of the capital budget: Wastewater, Waterworks, and Business Operations and Support. Wastewater and Waterworks are essentially at the same level of spending for FY18. Future spending, as identified in the budget, totals $3.3 billion and reflects an increase of $177.2 million: $122.5 million of new projects plus nearly $55 million for schedule changes and revised cost estimates for projects that had already been included in the capital program and budget. New projects are developed through the Master Plan and its periodic updating process (through the Planning Department). The next update will coincide with the preparation of the next budget and five-year cap over the next year. The new cap will cover the period FY19-23.

New projects added to the proposed FY18 capital budget total $122.5 million. Staff highlighted the top five new projects:

Section 57 Water Pipeline and Sections 21/20/19 Sewer Rehabilitation: $22.3 million
Chestnut Hill Emergency Pump Station Improvements: $18 million
Quabbin Administration Building Rehabilitation: $15 million
Nut Island Headworks Odor Control and HVAC Improvements: $10 million
Tops of Shafts Interim Improvements Construction: $6.1 million

Staff also described the measurable increases in increased spending, as a percentage of the capital program on asset protection and water redundancy. Also contributing to the efforts of preserving the condition of assets is continued commitment, through the current expense budget, to maintenance-related spending. Top construction projects, funded through the capital budget, total just over $80 million in FY18 and represent nearly 50% of all capital spending for the upcoming year. Staff highlighted these top eight major projects under construction in FY18. [See power point presentation.]

In FY18, there are 49 contract awards planned with a total contract value of $203.5 million. Three quarters of this amount, $151.7 million, is for Wastewater project contracts. Going forward, capital spending, which had been about $155 million per year during the period FY04-16, is expected to grow to an annual average of $246 million for the period FY17-23, still well below the levels of spending in previous years. Staff also presented similar actuals/projections at the utility levels (wastewater and water spending), which provides more information for understanding the impacts on wastewater and water rate changes.

Looking ahead, a new cap will be proposed for the FY19-23 capital spending period. Each spending year will be part of that five-year context, and will be part of the Master Plan. The next steps are to work with the Advisory Board, develop and present to the Board the staff's final proposal in the spring, and present the updated recommendations to the Board of Directors in the first week of June for adoption in latter part of June.

In response to a question, the updated Master Plan will be part of the development and presentation of the proposed FY19 CIP.

F. EXECUTIVE COMMITTEE

Legislative Strategy: Mr. Favaloro stated that the Governor's version of the state budget is out. It does include $500,000 in debt service assistance and $500,000 in Clinton money. It also includes some additional dollars to support state primacy (NPDES delegation). Mr. Favaloro will be meeting with Mr. Laskey with House and Senate leadership over the coming weeks and months. There is a minimal expectation that there will be an increase in debt service assistance. The FY17 funding was 9 C'd by the Governor, but $500,000 is still allocated for FY17. At this time, in all likelihood there will be some level of dollars that will be used to offset the increase in FY18 rates (in the $400,000 range, give or take).

Update on State Primacy: Regarding state primacy, we have heard over the last week or so that the Governor is going to reissue the state primacy legislation (with Idaho recently taking equivalent measures for primacy as well). There will have to be some combination of funding, maybe with a little bit from the state, to ensure a dedicated source of funding based on a fair and equitable fee system. We hope that the environmental community will see that the Commonwealth and DEP are a far better choice than what may be coming out of EPA in Washington.

Update on Watershed Protection: We have continued to raise concerns regarding watershed protection and recreational uses. The subject has been elevated, thanks to Board Member Pappastergion, to the attention of the Board of Directors (although discussion for the February 15 Board meeting was postponed). There seems to be a strong recognition between the difference between recreational land and watershed land.

G. FINANCE COMMITTEE ITEM

Preliminary Community Assessments: Copies are available at the sign-in table. In February, the Authority was in the process of transmitting the proposed budget for the FY18 Current Expense Budget to the Advisory Board for the statuary review period. It represents a 3.79% combined wholesale rate increase. That will start the Advisory Board's review process, and we look forward to a healthy and constructive debate.

Preview of the Advisory Board Budget Review Process: In March, MWRA staff will back for a presentation on the Current Expense Budget proposal at the meeting to be in Lexington at which the Advisory Board will also be holding its public hearing on the proposed budget. Authority staff will be laying out the components of the proposed FY18 budget and Advisory Board members can use the meeting as an opportunity to make comments. In April, the Authority will be holding its public hearing as well. In June, all parties will discuss the proposal and make recommendations about what the final budget will be.

H. OPERATIONS COMMITTEE

Update: The Advisory Board has sent the recommendations, developed by the Operations Committee and agreed to by the Executive Committee and the full Advisory Board, on expanding the eligible projects list for the I/I Grant/Loan program. How these recommendations will be incorporated into the program is under discussion. This may be resolved by May when the next distributions of I/I funding take place.

Also to be noted is the ten-year life of the water loan program is coming to an end. We need to put the Operations Committee back together to talk about what might change or stay the same. A date for a future meeting will be discussed.

I. REDUNDANCY VIDEO

A video of the redundancy program is being prepared and should be ready shortly.

J. ADJOURNMENT

A MOTION WAS MADE TO ADJOURN THE MEETING AT 12:55 PM. It was seconded and passed by unanimous vote.

Respectfully submitted,

Michael W. Rademacher, Secretary