



Executive Committee Meeting

FRIDAY, APRIL 14, 2017
8:30 AM

Advisory Board Conference Room
100 1st Avenue, Building 39-4
Boston, MA 02129

Attendees

Lou Taverna	Chairman; Newton	Andrew Pappastergion	MWRA Board of Directors
Michael Rademacher	Secretary; Arlington	Joe Foti	MWRA Board of Directors
Bernie Cooper	Vice Chairman of Finance; Norwood	John Carroll	MWRA Board of Directors
David Manugian	Bedford	Joe Favaloro	Advisory Board Staff
Nick Rystrom	Revere	Matt Romero	Advisory Board Staff
Brendan O'Regan	Saugus	James Guidod	Advisory Board Staff
Rob King	Somerville	Cornelia Potter	Advisory Board Staff
John DeAmicis	Stoneham		
Carol Antonelli	Wakefield		

DRAFT MINUTES

Call to Order

The meeting was called to order at 8:33 am.

Approval of Executive Committee Minutes for March 10, 2017

A motion was made and seconded to approve the minutes of March 10, 2017, meeting of the Executive Committee. The motion passed.

Preview of the Advisory Board Operating Budget for FY18

Mr. Favaloro opened the discussion noting that the budget includes a proposed nominal increase of a little over \$9,000 or a little under 2% and provides funding for four full-time positions and two contract positions. The biggest change involves the updating of the iPads: the approach is to lease the twenty iPads which will also allow for upgrades every two years (including service). The existing iPads would be surplus and donated to charity.

With regard to the development of the website, the contractor, Knox Web, has completed Phase I and is starting on Phase II. This phase includes the addition of the "bells and whistles" such as the ability to calculate rates and a lot of other features that will make the site totally interactive. This, in turn, has called for the inclusion of funding of an intern during the summer to support data entry (with an entry-level salary consistent with what the Authority pays its interns). Rent is essentially unchanged and reflects plans to remain in the existing space. The Advisory Board has a five-year lease and is currently in the third year of the lease. Mr. Favaloro also noted that there were updates planned for some of the computer equipment (considered capital expenditures). In addition, Mr. Favaloro noted that any surplus funds should be transferred to the legal services account in anticipation additional legal needs that may be called for relating to the cross harbor cable installation.

A vote on the proposed budget is planned for the next meeting in May.

Addition of Phase III to the Local Water System Assistance Program (LWSAP) at \$292 Million

Mr. Favaloro summarized the discussion of this topic at the recent meeting of the Operations Committee including using an inflation adjustment and construction index from the Phase I and II funding levels. He stated that Carl Leone will be at the full Advisory Board meeting. This next phase tees up the next chapter for the program. There was unanimous support for continuation of the program. There was no appetite for going to a grant-like program.

Mr. Romero also stated that a future Green Sheet video will explain the need for continuation of the program and the proposed level of funding for the next phase. It was noted that although repairs continue to be made, there remains considerable need for continued work on the unaddressed miles of unlined pipe.

A motion was made and seconded to approve the next phase of the Local Water System Assistance Program and the level of \$292 million. The motion carried without opposition.

Watershed Update

Mr. Favaloro opened the discussion by directing attention to two letters, one from an advocate of mountain biking (Mr. Dobson) and the other from Mr. Favaloro in response to his concerns. This has become a nasty fight between some off-trail users and those who believe that the Ware is a watershed first and foremost. There was discussion of the issues being addressed, and positions being taken and by whom, including the involvement by Commissioner Leo Roy of the DCR. This issue has been under discussion for months now, and has led to the position by Mr. Favaloro that there will be no capital projects or land acquisition in the watershed until this issue is resolved.

More recently, representatives from the state's Executive Office of Environmental and Energy Affairs (EOEEA), and representatives from the Authority, Advisory Board, and the Board of Directors have met and discussed this issue. Mr. Beaton was clear in his desire to see if there was any way to protect the watershed but at the same time expand mountain biking. Mr. Favaloro observed that the biking representatives are not interested in a designated area, but the ability to continue to develop new trails of their own. He emphasized that there is interest to continue to talk, to bridge the impasse with additional, scientific data. For example, a study could test whether continued and expanded mountain biking in the area had qualitative and quantitative effects on water quality. Mr. Favaloro stated that he has suggested that an independent study of some kind should be conducted and, absent that, he would maintain that the answer is "no." No unfiltered water system in the United States allows mountain biking.

In response to a question about the positions of the watershed organizations, Mr. Favaloro noted that in the past the organizations like WSCAC have not promoted the expansion of recreational activity. The Division of Fisheries and Wildlife, which is under Secretary Beaton, has recently closed all but six of their trails. At the same time, there are, in the Ware watershed, 70 miles of designated trails for horseback riding, snowmobilers, and mountain bikers. After additional discussion, Mr. Favaloro noted that in the packet of information that went to Mr. Beaton, there were 35 photographs of bikers ignoring signs about remaining on existing, legal trails and crossing in areas that are not approved.

Mr. Favaloro also noted that he had requested from EPA additional data that may already be available that could be useful and avoid the need for additional study. He also repeated that the Secretary is adamant that he wants to reach a solution. At this time agencies within EOEEA, including Fish and Wildlife, Division of Watershed Protection and the Department of Environmental Protection, oppose expanded mountain biking. Every ten years, there is an update of a public access plan for the three watersheds. The plans for the Quabbin and the Wachusett do not allow expanded or off the road public access. The updated plan for the Ware is expected in the next three years. The Commission wants to move that forward now and have a public discourse on the pros and the cons and then make a recommendation on the expansion or non-expansion of mountain biking. That discourse would be made more useful if there was data to back up the positions of all the involved parties.

Emerging Comments on the MWRA's Proposed CIP/CEB for FY18

Mr. Romero opened up the discussion of the emerging comments on the Authority's proposed capital and current expense budgets for FY18. The rate revenue requirement associated with the proposed Current Expense Budget is

3.79%. The Advisory Board staff is anticipating recommending a rate increase below 3.5% but at the same time is not proposing to pull the number down below 3.0%. Some of the options for revision are the assumptions for the Group Insurance Commission increases for the year ahead. Another area for review is the Authority's assumption for the vacancy rate, under Wages and Salaries. Together, these two categories of expenses could be reduced by about \$1.5 million. To put this in perspective, Wages and Salaries and Fringe Benefits costs for FY17 year-to-date are under budget by \$3 million. The good news is that the Authority's proposed budget meets the "4 [%] no more" guideline of previous reviews, but, now, the guideline has shifted to "4 [%] no more, no more" with a goal of moving below that rate level while still remaining within the reasonable guideline of being "sustainable and predictable."

Mr. Favaloro observed that the staff had expected to begin speaking to a potential lower rate revenue number until the issues involving the cross-harbor cable had raised concerns about how the dredging project and the cost of protecting the cable impacted current and future sewer assessments.

Mr. Romero focused on the theme of the Advisory Board's review this year: "managing risks." The first category of risks that the review is addressing is **financial risks**, starting with **variable rate debt**. He highlighted recent levels of variable rates, including the average 20-year SIFMA rate, actual rates paid by the MWRA, and the MWRA's budgeted assumptions for the proposed budget (at 3.25%). The Authority since FY11, has assumed for budgeting purposes a rate of 3.25%. Since then, the Authority has experienced rates below the budgeted levels. Since April 2016, the actual variable rate has begun to climb up due to a number of influences. For the proposed FY18 budget, the budgeted level is to be at 3.5% which is equivalent of an additional \$1.2 million to be included in the budget for debt service. Annual surpluses for actual variable rate expenses have contributed to the amounts that can be applied to the defeasance transactions, which have served as a tool for managing multi-year rate revenue requirements. The Advisory Board has been supportive of this strategy. In 2015, the Authority carried out a \$26.5 million defeasance (not including a smaller defeasance in the fall of 2015), and in FY16, the Authority conducted a \$32 million defeasance. Assumed in the proposed budget is the benefit of a \$20 million defeasance to be carried out in the current fiscal year. The actual number can be expected to be higher. While variable rates are rising slightly, this development also benefits investment income slightly (\$2.6 million). Also in the proposed budget is a \$10.9 million prepayment of debt (which has the value of a 2.25% rate increase). Providing additional flexibility for managing risks is the reserve funds, totaling \$62 million (which for multi-year planning purposes, are not assumed to be drawn down until 2021 and 2022).

With regard to the subjects of **Pension and OPEB**, recent strategy has included building budgeted amounts for the pension over several years to achieve full funding as required by the guidance for funding levels for the pension, followed by a more concerted effort to meet calculated funding needs (at 50%) for the OPEB category. The Authority has achieved virtual full funding for the pension, although, recently the pension returns have been declining a little bit. As a result, the Authority has been making an additional payment to the pension fund (proposed at \$1.8 million for the FY18 budget). The Advisory Board staff is proposing that amount should be deducted from the planned calculated contribution to the OPEB fund rather than increasing the contribution to the pension because there may have been a couple of bad years for earnings in the pension fund, thereby balancing the risk. The strategy continues the approach to funding the pension and OPEB as "two sides of the same coin."

Regarding proposed budgeted amounts for **enterococcus treatment** (that may be required with the issuance of an updated NPDES permit) the Advisory Board is addressing this topic as a planning initiative and a dollar value initiative. The Advisory Board is arguing that there is no reason for treating for enterococcus. In fact, the argument states that there is no scientific basis for treating for enterococcus while it is expected to add up to \$1.3 million per year in additional chemicals. In response to a question regarding how the decision for requiring this treatment

would be made, Mr. Favaloro observed that it would be a decision involving EPA, DEP, and the MWRA. The Advisory Board is proposing that the Authority should be granted a waiver for these requirements. He referred to the argument that is set out in the Advisory Board's new video (to be shown later in the meeting).

Turning to the subject of the **cross harbor cable**, Mr. Romero reviewed the various components of estimated costs for relocating and protecting the cable as part of a planned dredging project for the harbor. Among the costs are overtime, alternative power to run Deer Island operations when the cable is "de-energized" and related loss of revenue from energy-related credits, and costs of providing an additional source of alternative, back-up energy during the construction period. Current cost estimates have reached over \$32 million, as compared to the \$4.4 million assumed in the proposed FY18 current expense budget. Estimates of sewer rate revenue increases, on a wholesale basis, could be over 11.3% with additional cost increases for FY19, since the projected is expected to last two dredging "seasons." The subject is still under discussion, with the outcome yet to be determined.

Turning to the subject of **primacy** and implications for the issuance of an updated NPDES permit, the state budgeting process is also a subject for review. The MWRA will continue to be a large stakeholder; growing areas of responsibility are stormwater and septic flows/discharges. There will be some sort of a fee and it will be large. Funding from the state should be balanced with some fees from stakeholders to ensure that the funding is sustainable. The MWRA will be one of the biggest sources of funding due to wastewater flow. Massachusetts DEP will also be a participant, including in-kind services, as well as cities and towns plus industrial POTW's. Three-year averaging is also expected to be part of the discussion of fees, as well as rewards for "good behavior."

Also, an **infrastructure bill** is expected to be coming out from Washington, D.C. The Authority needs to have shovel-ready projects listed and ready to go. Projects could be grouped to make review and award more streamlined.

Regarding the **timeline** for the *Comments and Recommendations*, a similar presentation will be made at the Advisory Board meeting April 20 and a formal vote will be taken at the Advisory Board meeting in May. In June the MWRA Board of Directors has two meetings: at the first June meeting, the Advisory Board presents the *Comments and Recommendations* and gets feedback. At the final meeting in June, the Board of Directors will vote on the final CIP and CEB budgets and finalize assessments for communities.

Approval of Advisory Board Meeting Agenda for April 20, 2017

A motion was made and seconded to approve the proposed agenda for the next Advisory Board meeting on April 20, 2017, at BWSC. The motion was approved.

Viewing of the Video on Enterococcus Treatment

The 9-minute video was shown to members of the Committee.

Adjournment

A motion was made **TO ADJOURN THE MEETING AT 10:17 A.M.**

Respectfully submitted,

Michael W. Rademacher, Secretary