



Executive Committee Meeting

Friday, May 11, 2018
8:30 AM

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

Attendees

Lou Taverna	Newton, Chairman	John Carroll	MWRA Board of Directors
Michael Rademacher	Arlington, Secretary	Joe Foti	MWRA Board of Directors
Tim MacDonald	Cambridge	Andy Pappastergion	MWRA Board of Directors
Ralph Pecora	Lexington		
John Sullivan	Boston	Joe Favaloro	MWRA Advisory Board
Moe Handel	MAPC	Matt Romero	MWRA Advisory Board
David Manugian	Bedford	James Guiod	MWRA Advisory Board
Rob King	Somerville	Lenna Ostrodka	MWRA Advisory Board
Nick Rystrom	Revere	Cornelia Potter	MWRA Advisory Board
Elena Proakis Ellis	Melrose		
Lou Mammolette	Chelsea		

DRAFT MINUTES

Welcome

The Chairman called the meeting to order at 8:35 am, and welcomed members and other attendees.

Approval of Minutes

A motion was made and seconded to approve the minutes of the Executive Committee for the meeting of April 13, 2018. The motion was approved.

Advisory Board FY 2019 Operating Budget

Mr. Favaloro reported that nothing has changed from the last month's report summarizing the elements of the proposed budget. An increase of 6.7% is proposed. The rent is included in this budget. A motion was made and seconded; the motion carried.

EPA Announcement on the Implementation of the MS4 Permits

Mr. Favaloro reported that EPA had recently announced that the MS4 stormwater permits would go into effect July 1, starting with a one-year period for planning. A copy of the announcement and related materials will be included in the packet of materials being sent out for the upcoming Advisory Board meeting.

Advisory Board Integrated *Comments and Recommendations* on the MWRA's Proposed FY19 Capital Improvement Program and Current Expense Budget

Mr. Favaloro opened the discussion by noting that the presentation will address highlights of what has changed from the last presentation. Mr. Romero noted that the formal vote on Advisory Board's *Comments* will take place in May. Starting with the Current Expense Budget, he reviewed the recent changes from last month's presentation.

Referring to the one-page summary of financial recommendations (the "Dunphy Sheet"), he noted that the wholesale rate revenue requirement is still targeted at 3.07%, which is down from the Authority's proposed level of

3.91%. The elements of the recommendation include: an OPEB decrease of about \$3.7 million (the largest reduction recommendation, linked to the pension discussion); level funding the optional debt pre-payment from the FY18 level; reducing variable rate debt assumptions by 25 basis points for a recommended reduction of about \$1.0 million; increasing the vacancy rate assumption to 9.5 FTEs for a reduction of \$0.95 million (headcount is not reduced); cutting enterococcus compliance funding with the assumption that the permit will not be issued within FY19; using the Debt Service Assistance to “pay it forward” to the FY19 budget; and an add-back to short term investment income of \$1.0 million accounts for the previous recommendation to assume a lower short term interest rate on borrowings (see variable rate debt remarks, above). These recommendations total nearly \$7.5 million.

Staff then reviewed a series of anticipated adjustments (as proposed by the MWRA staff) which would add \$1.5 million to the proposed budget.

Also highlighted were other anticipated changes, as reported to the Advisory Board staff by MWRA staff, regarding capital financing and reserve cost changes, and revenue and income (also reported on the “Dunphy Sheet”), for about \$0.54 million, in estimated reductions that can be expected in the proposed current expense budget.

That brings the analysis to a net total of changes to the proposed FY19 CEB to \$6.01 million, which supports the 3.07% reduction that the Advisory Board is recommending.

Mr. Romero next spoke to the differences between the Advisory Board and MWRA’s approach to elements of the budget. Among them are the subjects of the pension and the OPEB expenses. Interest rates is another category of ongoing discussion (assumptions regarding variable rates as they apply to debt service assumptions, and the impact on short-term investment income). Another category of discussion is the optional pre-payment of debt. Another topic still under review is the recommendation to aim for rate increases limited to 2.4% by ’24. Staff described the pathway to get to these recommendations. In addition, staff described the issues and approaches to reaching full funding for the pension fund as part of the analysis. In addition, optional payments were increased to increase the levels of funding to help meet the goal of full funding. Staff also noted that the MWRA had the option of extending the schedule for meeting the schedule for “full funding” out to 2024 (and, there options to extend the payment schedule as far out as 2040). There were options for extending the payment schedule out to different dates.

Regarding the TRAC Fee Program, the recovery rate for the program has been declining over time. FY12 was the last time that the fees were increased. The recovery rate was about 52% and by FY16 was down to 42%. The decision not to raise rates during that period was due to the economic downturn, and there was an anti-tax feeling across the Commonwealth. The task now is to find the right recovery ratio and put in some kind of automatic escalator for updated rates going forward so that industries will know what the future changes will be (not unlike the approach for setting water and sewer rates that ensure predictable and sustainable increases) to recover costs of the program. The implementation of the increases is recommended for FY 2020 (the length of time to accommodate the process of making changes).

Primacy and the establishment of a dedicated fee structure outside of the state budget are recommended again this year. Staff also noted that New Hampshire is addressing primacy this year, as is Idaho.

The NPDES permit and the recommendation that there should be no “co-permittee” language in the permit are also recommended again this year. While the issuance of the permit is not expected this coming year, the

recommendation remains to ensure that the Advisory Board remains on record that the Authority should not be the regulator for its member communities.

Regarding digester lights, the Advisory Board is recommending that MWRA reach out to other entities for funding to install color accent lights on the Deer Island digesters.

The capital spending cap has increased to more than \$1 billion in this year's CIP. The Advisory Board is recommending the cap be lowered to \$950 million.

The fire in April at a DCR facility at the Quabbin Reservoir resulted in the total loss of the buildings, equipment, and vehicles. However, funding is compromised by the fact that the Commonwealth of Massachusetts is self-insured and does not have an insurance reserve fund. Yet, the MWRA pays for all costs of the Division of Water Supply Protection. The Advisory Board is recommending that all projects in the CIP and in the Watershed Reimbursement line item in the CEB be removed until the Commonwealth either allows there to be insurance so that there will be money to replace anything that is lost, or establishes a dedicated insurance reserve for the Watershed Division so that those funds can be used (and not ratepayer funds) to replace something. "Self-insurance" does not mean "no insurance."

A motion was made to approve the Advisory Board *Comments and Recommendations* on the MWRA's Proposed FY19 CIP and CEB. The motion was seconded and passed by unanimous vote.

There was also an elaboration of the OPEB and pension-related recommendations and issues including a recommendation to extend the pension funding schedule out to 2028, which would provide some budgetary relief in the earlier years (FY19-24).

These updated *Comments and Recommendations* will be presented to the Advisory Board at its upcoming meeting on May 17.

Climate Change Workshop

Mr. Favaloro highlighted attendance and speakers for the workshop. At this point, Speaker DeLeo is tentatively committed for an appearance. Panelists for the afternoon session are expected to include a professor from Boston College. Mr. Favaloro also reminded members (or to name a designee with an authorization from the representative community) to attend the workshop and meeting of the Advisory Board, to ensure a quorum for the election of a members to the MWRA Board of Directors.

System Expansion

Mr. Favaloro gave an update regarding the status of discussions with possible applicants to join the MWRA water system.

Scheduling Executive Director Annual Evaluation

The evaluation will be scheduled for the next meeting of the Executive Committee in June.

Approval of the Advisory Board Meeting Agenda for May 17, 2018

A motion was made and seconded to approve the proposed agenda for the upcoming May 17, 2018, meeting of the Advisory Board. The motion was approved. The meeting is to be held at the Canton Public Library.

Adjournment

A motion was made to adjourn the meeting; the meeting adjourned at **10:03 A.M.**

Respectfully submitted

Michael W. Rademacher, Secretary