MWRA Advisory Board

Executive Committee Meeting

Friday, March 14, 2014
8:30 AM

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

Attendees

John Sullivan	Boston	Andy Pappastergion	MWRA BOD	Carol Antonelli	Wakefield
Tim MacDonald	Cambridge	Joe Foti	MWRA BOD	Zig Peret	Wilbraham
Andrew DeSantis	Chelsea	Lou Taverna	Newton	Joseph Favaloro	Staff
Rob King	Framingham	Bernie Cooper	Norwood	Matthew Romero	Staff
William Hadley	Lexington	Michael Coffey	Quincy	Cornelia Potter	Staff
Katherine Dunphy	Milton	Nick Rystrom	Revere	Travis Ahern	Staff
John Carroll	MWRA BOD	John DeAmicis	Stoneham	Mary Ann McClellan	Staff

MINUTES APPROVED AT THE APRIL 11, 2014 MEETING

I. Approval of the January 10, 2014 Minutes of the Executive Committee

Chairman Katherine Haynes Dunphy called the meeting to order at 8:33 a.m. A Motion was made **TO APPROVE THE JANUARY 10, 2014 MINUTES OF THE EXECUTIVE COMMITTEE.** It was seconded and passed by unanimous vote.

II. FY15 Advisory Board Review Process for MWRA Proposed CIP/CEB

MWRA Advisory Board Executive Director Joseph Favaloro stated that staff wanted to gauge the "temperature" of the Executive Committee on staff's approach to this year's *Comments and Recommendations*. Staff is currently immersed in briefings with Authority staff. Today's presentation is more thematic on whether the Executive Committee believes that staff is making good choices.

In making modifications to the Inflow and Infiltration (I/I) Grant/Loan Program, instead of bringing the Operations Committee together, staff is contemplating using the *Comments* to elevate the discussion on I/I. Currently, the Local Water System Assistance Program has a ten-year repayment plan, while the wastewater program has a five-year repayment plan. Staff would like to suggest a ten-year repayment plan for the new phases of the I/I loans, consistent with the water side.

With all the hits communities will be getting on stormwater, staff is proposing to change the I/I grant/loan portion from 45% grant/55% loan to 75% grant/25% loan to provide communities with some breathing room while assessments are still going up, keeping smooth, sustainable levels of increases. There would be less repayments going back to the MWRA, but when all is said and done, it is the communities' money and they will be paying it back one way or another.

Staff would include these recommendations in the budget comments or could call Operations Committee meetings to discuss Phases 9 and 10.

Director of Communications Matthew Romero stated that the aim was for the Advisory Board's short-term strategies to be consistent with its long-term goals.

Joseph E. Favaloro, Executive Director
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The first strategy is being called “Four No More.” Focusing on FY16 to FY20, proposed rate increases are starting to creep above the 4% line. In the multi-year outlook, it would be staff’s goal to bring those rates down to the 3+% range. If this goal can be reached, the Authority would be able to say that they have kept rate increases under 4% for 20 years.

For the Proposed FY15 Current Expense Budget (CEB), the goal is to aggressively defease debt, while preserving rate stabilization funds. The release of the reserves means that there will be less investment income; rate stabilization funds will be critical in helping to offset the declining investment income.

Michael Coffey asked how much investment income the Authority is making. Cornelia Potter stated that the Authority’s investment income is about $10 million; however, it used to be $40 million.

Mr. Romero noted that the Authority is anticipating the release of reserves. The Authority and Advisory Board must work to determine the best strategic use of those reserves. Planning projections now incorporate debt service reserves that were assigned to particular bond series. The projections did not include unencumbered reserves and it is important to utilize these reserves to get the best “bang for the buck.”

Advisory Board staff is focusing in particular on FY17, which is currently projected to have a 6% increase, but has expanded its scope to include the FY16-20 timeframe mentioned earlier. Bringing down the rate increase too far in FY15 will only increase the following year’s rate increase. For example, reducing the FY15 increase to 0% would cause the increase in FY16 to jump to 8%. That does not mean that staff won’t examine every line item for every dime it can find to reach a short-term target below a 3.5% increase for FY15.

Currently there is $7.9 million in the proposed budget for rate stabilization use; staff would propose that some of these rate stabilization funds not be used but rather saved for future use. In a new approach toward budgeting for Debt Service Assistance (DSA), staff would suggest that the $854,000 of DSA funds received from the Commonwealth in FY14 be applied directly to the FY15 budget, which would bring the proposed 3.6% increase down to 3.4%. With this approach, the Authority can give credit to the legislature/Governor in the current year and it will assist communities in bringing down their assessment increase.

John DeAmicis asked when the Authority receives the $854,000 in DSA from the state, where does it go. Mr. Favaloro said the Authority receives the funds and deposits them into the rate stabilization funds. Instead of leaving those funds there, Advisory Board staff is saying to use those funds for the next year, which would provide a direct benefit to the communities and their ratepayers and it will reduce the proposed increase for FY15, which is the primary goal of FY14’s DSA.

On the capital side, the Advisory Board is reiterating its previous recommendation that the community programs be exempt from the capital spending cap calculation. Additionally, the Comments will be used to detail the recommendation voted by the Advisory Board to double the funding for the I/I program, which was not included in the proposed budget. Further recommendations will be to increase the I/I loan portion payback time to ten years, matching the water side, as well as increasing the grant portion from 45% to 75% as Mr. Favaloro indicated prior.

A two-pronged approach is being used for current revenue for the capital program. The first would be to reduce the line item by a “dollar certain” if staff deems this possible. More information will be gathered at staff briefings in the afternoon. Additionally, the Advisory Board is recommending that the Authority use the dedicated funds for Clinton water quality work be used toward the phosphorus reduction project and funded through the current revenue line item. Further, the Authority should have “stand alone” projects that can be inserted into their budget in place of projects that get moved further out.

Policy issues are also being reviewed, such as molybdenum, co-digestion and system expansion. In highlighting the newest issue, Mr. Romero noted that Massachusetts has a higher molybdenum standard than the national standard. For up to six months of the year, pellets from the New England Fertilizer Company (NEFCo) cannot be sold in the Commonwealth of Massachusetts because of the higher molybdenum levels in the pellets.

Moving forward, the Advisory Board would like to have the year-round capability of selling pellets in Massachusetts. It would avoid transportation costs for shipping the pellets out of state.

This could be achieved in two different ways. Mr. Romero noted that the Authority’s pellets were only slightly above the state’s standard, which meant only a slight adjustment and not a wholesale change to match EPA’s limits would achieve the end goal. Additionally, the Authority must work aggressively to reduce molybdenum at its source. The Toxic Reduction and Control (TRAC) department should revisit its regulations and increase its fees.

Mr. Favaloro noted that there was precedent for the Authority taking action through TRAC. When there was an issue with chemicals from photo processing plants and mercury from dental offices, TRAC came up with a plan to address it. Molybdenum can be traced to cooling systems in office towers. There may be an additional layer in resolving this issue because generally the people that manage these buildings are not the owners of the buildings. The MWRA should work with the state to try to bring the state standards closer to the national standard. If the Massachusetts standard could be increased slightly, the pellets could meet the standard and could then be sold year-round in the Commonwealth.

Mr. Favaloro noted that this issue needs to be addressed because the Authority will be entering negotiations with NEFCo for a new contract, which will reflect in-state and out-of-state costs.

Mr. Romero noted that the timeline for the budget review will be as follows: budget briefings during March, a public hearing in March, key document production during April, in May the full Advisory Board will vote on the final *Comments and Recommendations,* there will be a response from the MWRA at the beginning of June and the final CIP/CEB will be approved by the MWRA Board of Directors at its final meeting in June.

Mr. Favaloro noted that a public hearing will be held just prior to the next Advisory Board meeting. As a precursor to the meeting, Travis Ahern has put together the “green sheet” video on components of the CEB, which will be presented at the public hearing next week, instead of having MWRA staff make a presentation.

III. Further Modifications to I/I Grant/Loan Program

See Item II.

IV. Legislative Update

Mr. Favaloro stated that a lot has been going on legislatively. Debt Service Assistance (DSA) for FY14 will be coming in. This will make two straight years that DSA has survived the 9c cuts. Normally, the MWRA receives about 75% of DSA; however, for FY14, MWRA will receive 85% of the funds. With the inclusion of BWSC, Cambridge, Canton and Worcester receiving DSA funds, MWRA communities will receive $940,000 of the $1 million.

Mr. Favaloro noted that he and MWRA Executive Director Fred Laskey have met with Speaker DeLeo, House Majority Leader Mariano, Senate Ways and Means Chair Brewer and House Ways and Means Chair Dempsey to seek DSA for FY15; there is a commitment on the House side.

By legislative standards, there has been a "fast tracking" of the water and wastewater infrastructure bill, which has passed the Senate. The bill includes language on connection fees, principal forgiveness, entrance fees and partial reimbursements for the I/I Program. There is support on the House side as well.

With these added incentives, staff is hoping to convince Tri-Town to join the MWRA waterworks system. Discussions have also been held with Weymouth, which is hoping to supply water to the Southfield development.

V. Preview FY15 Advisory Board Budget

Mr. Favaloro provided the Executive Committee with a preliminary FY15 Advisory Board budget, noting that he had previously shared with the committee that FY15 was going to be a challenging year and that the requested increase would be larger than it normally is by Advisory Board standards.

Because of a personnel change in FY14 and the hiring of a new budget analyst in the second half of the fiscal year, there will be a projected surplus of $28,000.

Mr. Favaloro offered suggestions on how to use those surplus funds: 1) Transfer funds to the payroll liability account to ensure that this liability is covered; 2) Increase the Advisory Board's reserve funds to cover one and one-half month's budget needs, which currently only covers one month of expenses; 3) A deposit to the Capital Investment Account, as staff is in need of additional laptop computers; 4) Use some of the funds to reduce the $24,000 increase being requested from the MWRA for FY15.

Increased line items for FY15 include payroll, which assumes step increases; rent, which is increasing, along with the taxes and operating costs associated with this lease.

Lou Taverna noted that the Advisory Board could consider purchasing a smart board along with the laptop; his staff purchased one and it is used every day. Mr. Romero stated that it would depend on whether the Advisory Board stays in this office. It would not be worth the expense to have it wired into the office if the Advisory Board only remains in this space for one more year.

Staff has tried to find ways to cut costs, including the use of thumb drives in lieu of printing costs and less costly postage for mailing a thumb drive, as opposed to a paper document.

Mr. Favaloro also noted that a compensation study is being done, which may or may not affect the payroll budget. A new draft will be presented to the committee each month until May when a vote will be taken.

Bernie Cooper asked for something in writing on the recommendations for the surplus funds. Mr. Favaloro said he will provide these numbers to the Executive Committee.

VI. Annual Review of MWRA Advisory Board Executive Director

Mr. Favaloro stated that over the past 26 years his goal has always been to keep the Advisory Board relevant. Staff has dealt, along with the Executive Committee and full Advisory Board, with issues that are critical and important.

It has been Mr. Laskey's strategy to let the Advisory Board know about issues in advance so that the Advisory Board has an opportunity to weigh in and we work more as a team on community-related issues.

Bill Hadley stated that Mr. Favaloro and his team have held the MWRA accountable and that he appreciated those efforts.

Mr. Favaloro noted that he had already said that as part of the FY14 budget that he would not be taking a salary increase.

A motion was made **TO PROVIDE AN OUTSTANDING REVIEW TO EXCECUTIVE DIRECTOR JOSEPH E. FAVALORO, JR. ON MARCH 14, 2014 AND TO AMEND THE EXECUTIVE EMPLOYMENT AGREEMENT AS FOLLOWS: TO EXTEND THE TERM OF THE CONTRACT FROM JUNE 30, 2015 TO JUNE 30, 2016; FURTHER, TO PROVIDE A 3% SALARY INCREASE EFFECTIVE JULY 1, 2014 FOR FISCAL YEAR 2015.** It was seconded and passed by unanimous vote.

VII. Approval of the Advisory Board Agenda for March 20, 2014

A motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE MARCH 20, 2014 MEETING.** It was seconded and passed by unanimous vote.

VIII. Adjournment

A motion was made **TO ADJOURN THE MEETING AT 10:00 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

William Hadley

William Hadley, Secretary