MWRA Advisory Board

Executive Committee Meeting

Friday, April 11, 2014
8:30 AM

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

Attendees

John Sullivan	Boston	Lou Taverna	Newton	Matthew Romero	Staff
John Sanchez	Burlington	Michael Coffey	Quincy	Cornelia Potter	Staff
Tim MacDonald	Cambridge	John DeAmicis	Stoneham	Travis Ahern	Staff
Katherine Dunphy	Milton	Carol Antonelli	Wakefield	Mary Ann McClellan	Staff
Craig Leiner	Natick	Joseph Favaloro	Staff		

MINUTES APPROVED AT THE MAY 9, 2014 MEETING

I. Approval of the March 14, 2014 Minutes of the Executive Committee

Chairman Katherine Haynes Dunphy called the meeting to order at 8:43 a.m. A Motion was made **TO APPROVE THE MARCH 14, 2014 MINUTES OF THE EXECUTIVE COMMITTEE.** It was seconded and passed by unanimous vote.

II. Action Item: Adjustment / Recalculation of Interest Rates Assessed to Stoughton and Wilmington on Entrance Fee Annual Payments / Status of System Expansion Requests

MWRA Executive Director Joseph Favaloro stated that he and MWRA Executive Director Fred Laskey were back before Tri-Town (Braintree, Holbrook and Randolph) to discuss Tri-Town's joining the MWRA water system. If Tri-Town were to join the system, it could potentially mean that Southfield would join as well. Meetings were also held with officials from the Town of Weymouth, which is also interested in supplying water to Southfield. The Infrastructure Bill could provide a means for entrance into the system.

Mr. Favaloro noted that by eliminating interest-rate charges for communities, other communities that have already been paying interest rates have asked for reconsideration of those charges. What would happen if entrance fees were eliminated moving forward? Communities that have already paid an entrance fee will likely ask for their money back, which would be in the ballpark of $20 to $25 million.

Mr. Favaloro stated he would like to put this topic back on the table for next month. He stated that he would like to put a position paper together, absent the conclusion. If an analysis were done from Bedford all the way up to Dedham-Westwood, what entrance fees have been, what their connection costs have been, the nine miles that Wilmington had to travel, the miles through Canton to get to Stoughton, all of those costs that were incurred by these communities to come into the system and what in fact, potentially, the amounts of dollars that might be on the table in the event that the Authority were to significantly alter their policies at this point.

After having this discussion, Mr. Favaloro said he would ask the Executive Committee to decide if the Advisory Board should maintain its position on entrance fees and connection costs, or if it should move to a different position. If the answer to the question is that the Advisory Board should maintain its current position, then that reinforces Mr. Favaloro's negotiating stance during these discussions.

John Sullivan said we do have an official policy, so, first, the policy would need to be changed before we negotiate. You can't negotiate when the policy says here are the rules and you would be negotiating something contrary to them. The question we have is whether we are out to protect our ratepayers or if we are out here for economic development for the state. We don't need them; it would be nice to have them and to sell the water, but we don't need them. That is not our role. They need to develop and they need a good water supply to do that.

Mr. Favaloro said both the Advisory Board and the Authority have policies; last year the Advisory Board revisited its policy to include an entrance fee payment paid over time, interest free.

Michael Coffey asked what the economic benefit would be to the members if Tri-Town were to join the system. Mr. Favaloro said if Tri-Town were to come in, along with Southfield, it would be about 8 MGD and would result in $8 million being redistributed among the other communities.

Mr. Favaloro noted that some could make the argument that the current position is short-sighted because within "X" amount of years we could recover the entrance fee and repayments to communities that have already paid an entrance fee.

Mr. Coffey also noted that it could be a different discussion if the new entities were going to use 20 MGD.

Mr. Favaloro stated that connection fees have come into play now as well. Where do you draw the line?

Mr. Sullivan said communities wishing to enter can apply for grants from the state. The Advisory Board has a policy and we should follow that policy.

Mr. Sullivan noted that if you were to recalculate and give people back their entrance fees, you would have to take into account their bonding costs for them to borrow the money to give to the MWRA. It would be a huge amount of interest.

Mr. Favaloro stated that Stoughton and Wilmington have requested a revisit on the interest rates they are paying on their entrance fees. There had been options to pay the money upfront or over time if you wanted to pay it with an interest rate. Stoughton and Wilmington have been making annual payments to the MWRA with interest. Wilmington has many years left and Stoughton has about seven years remaining.

The Advisory Board has taken the position that we would support interest-free payments for 25 years with a three-year grace period at the beginning. The Advisory Board has been on the record of saying 0%. Originally staff was going to ask for a 0% interest rate, which would be about $211,000 per year of lost revenue for the MWRA and over $2 million on what is left on the life of the loans. Instead, staff would suggest an alternative approach to support a reduction in the interest rate to a fixed 4.34%, with the caveat that when/if the Board of Directors takes an action different than the current approach and moves to a 0% interest rate, that the Advisory Board would support a 0% loan retroactively.

Mr. Sullivan said if the cost of borrowing goes up, do we go back and say we want to renegotiate to a higher interest rate. Mr. Favaloro said the language could be changed to match the cost of borrowing of the MWRA.

Mr. Sullivan agreed, stating that he did not want to set a particular number. It should be the cost of the borrowing for the life of the term. We don't want to revisit this every year.

John DeAmicis said you don't have to give back funds; the old rate could be "grandfathered." Mr. Sullivan said that is what a fixed rate is versus a variable rate. The variable rate guarantees somebody something for so many years and then we will all sit down and figure it out again. A fixed rate says "that is the deal." Mr. Favaloro said staff could work on the language.

Chairman Dunphy said the important thing is to keep it simple because every time something happens there is going to be special circumstances and you don't want that. You don't want to spend the time dealing with the complications from individual communities.

A Motion was made **TO APPROVE THE REQUEST OF THE TOWNS OF STOUGHTON AND WILMINGTON TO ADJUST THE INTEREST RATE COSTS ASSOCIATED WITH THEIR ENTRANCE FEES TO THE CURRENT PREVAILING FIXED-RATE COST OF THE MASSACHUSETTS WATER RESOURCES AUTHORITY.** It was seconded and passed by unanimous vote.

III. Update: Advisory Board Budget Review Process – Weighing in on Co-Digestion of Food Waste

Mr. Favaloro stated in the past two to three weeks co-digestion has become a major debate between the Town of Winthrop, the MWRA and the Commonwealth of Massachusetts. Since the last Advisory Board meeting, Mr. Laskey was summoned to Winthrop and about that same time, Advisory Board staff had called the Chairman and Board members and suggested that the Advisory Board should weigh in.

Mr. Laskey did appear before 200 to 300 concerned citizens of Winthrop and there was an agreement at that time that the Authority would, in fact, put a halt on the co-digestion pilot program until they have figured out what they are going to do next, specifically related to additional truck traffic.

Taking a quote from the *Winthrop Transcript,* discussing how that meeting went, "Winthrop sent in its cleanup hitter to bat leadoff and he hit a home run for the town." Mr. Favaloro said that puts in perspective that this issue isn't going away any time soon as currently constructed.

Under an op-ed piece, Mr. Favaloro stated that he raised some questions on co-digestion that need to be addressed. The Authority is "between a rock and a hard place." The "rock" is Winthrop and their "cleanup hitter" is the Speaker of the House. Their "hard place" is the Commonwealth of Massachusetts, which is excited about its new "green initiative" called co-digestion, which starts October 1, 2014. Hospitals, schools, restaurants and institutions may be affected.

The MWRA has invited DEP Commissioner David Cash to come to the MWRA Board of Directors meeting next week and he will begin to answer some of the questions that have been posed. If they decide to barge, it will cost more than $3 million to repair the piers. Who is going to pay for that? The ratepayers aren't. Beyond the pilot program, what is the next step? Staff wanted to be on record in posing these questions.

Mr. Sullivan said the Authority gets the money from the energy extracted during the co-digestion process; they don't have to share it with anyone, do they? Mr. Favaloro said it will take seven to ten years to recover the capital costs. Mr. Sullivan asked if there is a tipping fee. Mr. Favaloro said that has not been determined. Mr. Sullivan said Winthrop does not want these trucks driving through their town, correct? Mr. Favaloro said that is correct, so now in order to do the pilot program, there would have to be substantial improvements to the piers. Is the state or the MWRA going to pick up that cost? Further, there has been no discussion with Charlestown, which is likely to be impacted threefold compared to Winthrop. Who would be paying mitigation?

Mr. DeAmicis said he doesn't want the ratepayers paying for the state's organic waste disposal problem; there shouldn't be a dime of the ratepayers' money going to this. The MWRA has already spent too much.

Mr. Favaloro said the questions have been raised. There may be some answers next week at the Board meeting. In many ways, the state has been a bit too aggressive in the sense of timelines. Communities and the MWRA have to review and possibly modify their sewer use regulations. How is the state going to assure that a hotel or restaurant is separating the waste correctly? Additionally, the septic use regulations clearly state that the MWRA cannot take non-MWRA district septage into the MWRA system. The MWRA is not allowed to take out-of-district food waste.

Come October 1, statewide, the hospitals, nursing homes, schools, restaurants, etc. have to find someone to haul this organic food waste to a compost area.

John Sanchez noted that this could potentially be a money-maker as well. Mr. Favaloro said that is why we are asking for a cost-benefit analysis. Mr. Sanchez asked if anyone at the Authority is looking at this as a potential revenue generator. Mr. Sullivan said he believes the Authority is looking at it as a potential revenue generator but they need to do the pilot program to see how much it generates. What are the increased costs of operating the system? Tipping fees, etc.? Mr. Sanchez said he would be willing to spend some of the Authority's money to see if this would help the Authority in the future.

Mr. Sullivan said that would have been fine if you could get the trucks through Winthrop, but now an additional cost has been added in order to do the pilot study. That is the real problem.

Mr. Favaloro stated, in fairness to the Advisory Board, staff didn't come out and object to the pilot program; staff made two recommendations. The first was a request for a "get out of jail free card" should there be an upset at the plant due to the pilot program and the second was that in order for the MWRA to participate in this program, it would have to make some significant money.

After the pilot program, if successful, what is the investment that would have to be made for full implementation? The Authority, from that point, would have many years of significant investment to be able to take the food waste that would be in the digester and send the waste to the generators, which by the way have to be replaced at $20+ million, and create methane gas.

Mr. Sullivan said they are a state Authority and they are part of the overall solution and the MWRA may have to spend some money to see if it works. It does work; the question is whether they can make some money doing it? What does the tipping fee need to be in order to make the money back and recoup the costs?

Mr. Coffey said the question is shouldn't the state be spending the money. Mr. Favaloro said that is the first question. Mr. Sullivan said in conjunction with the Authority letting them use its facilities, the state should be providing these funds.

Mr. Favaloro said that Winthrop has applauded the op-ed and the Speaker appreciated the fact that it was the Advisory Board that posed the questions. It has not been as warmly received by others.

Mr. Favaloro said the costs are in many different cost centers. Clearly there are the capital costs, the operating costs and the time spent by MWRA employees. In reality, what are the total costs? Just because there is a contract with Waste Management for "X" amount of dollars, that is not the only cost.

Additionally, the MWRA's pilot program may not be up and running by October 1, 2014, when the state wants to implement the organic waste disposal regulations. The timelines are "out of whack."

At the same time that there are discussions about the beneficial re-use of food waste, agriculture in the Commonwealth of Massachusetts comes up with new language for fertilizer for non-point source pollution. As written, the MWRA's pellets would be non-usable for beneficial re-use within Massachusetts. The Advisory Board weighed in and requested that the MWRA's pellets be exempted. DEP has since extended the comment period by 60 days and said that it was not their intention to make these pellets non-usable within Massachusetts. It will be addressed.

Mr. DeAmicis asked what the problem was. Mr. Favaloro said the new regulatory language around the use of pellets as fertilizer for non-agricultural land was written in such a way that the NEFCo pellets would not meet the nutrient criteria.

Additionally, the Water Resources Commission (WRC) has held discussions in regard to the streamlined regulatory process language that was included in Senate Bill 2021. The WRC was working aggressively to streamline its regulatory process; however, there has been some opposition from environmental groups that has likely held up any resolution toward a simplified process in the near future.

Director of Communications Matthew Romero provided members with information on the Advisory Board's emerging *Integrated Comments and Recommendations on the Authority's Proposed FY15 CIP and CEB.*

Mr. DeAmicis said he was uncomfortable with one of the Advisory Board's recommendations in regard to having a list of projects available to be able to replace another project that may be delayed. He stated that he did not want to spend money on lower priority projects. He said that he did not want to encourage the Authority to spend money just because it is available. Mr. Romero stated that these are not lower priority projects.

Mr. Favaloro clarified the thought process behind this recommendation. The Authority has a five-year capital spending cap, which it is not allowed to exceed. The five-year cap is created after a process that puts projects in and takes projects out based on the Authority's Master Plan and Business Plan. If projects begin to slip, there might be some short-term benefit but there is a long-term impact because it just moves that project out into the next cap period. It is not that it is less of a priority it just means that they haven't been able to get it done. For every priority project they put in, there is another priority project that might not have gotten in.

The recommendation is not to just go out and do a project for the sake of doing it, but rather, be ready. If staff knows something is going to slip by six months to a year, is there something planned for the next year that they could be ready to do. The Board of Directors would have to vote on any replacement project and there would be analysis and discussion. The aim is to get their capital budget plan done. Mr. DeAmicis said this recommendation could actually be considered a nudge for them to do better planning; whereas he had been interpreting it to mean that the Advisory Board wants to ensure they are spending their budget. Mr. Romero said the point is that these projects are already in the budget, they are just not getting done because they are farther along in the budget and the projects that are in the current year get pushed out. It ends up creating a backlog and everything pushes out.

Mr. Coffey said it is really project swapping where they are taking a project from the FY16 budget and moving it forward and the FY15 project goes into the FY16 budget. Mr. Favaloro said that is correct and the cap does not change. The Authority has been under-spending its cap, which the Advisory Board has no problem with; however, it doesn't mean that they aren't going to still complete these projects; they will just be pushed into the next cap.

Mr. Coffey said if you had $200 million for this year and $200 million for next year within the cap, if they delay $20 million from this year, it makes next year's cap $220 million. Mr. DeAmicis said the Authority spent billions of dollars to build the treatment plants and other facilities. It is okay for them to slow down on spending now. Mr. Favaloro said there are a lot of reasons that a project can slip. There could be regulatory issues or issues with the communities.

Chairman Dunphy said there is also another issue. There are employees at the MWRA; if a project is not moving ahead, you have people who would be supervising and watching the finances and they wouldn't have that job, so they would want to pull something in so that these employees can remain busy. Bringing another project in would be utilizing the "human" resources for the greatest good.

John Sanchez said that he is in full support of the recommendation. Carol Antonelli agreed.

Mr. DeAmicis said the Inflow/Infiltration (I/I) Program was doubled and there are good reasons for doing that. The other part of the recommendation was to change the 45% grant/55% loan to 75% grant/25% loan. He stated that he is uncomfortable with doing both at the same time, saying that he would like to see how the extra money works out first. Money gets mishandled sometimes.

Mr. Favaloro stated that the community projects must be approved by MWRA Senior Program Manager Carl Leone, with a lot of accountability as to the project itself. Staff wanted to tie this hand-in-hand because, as discussed at the Operations Committee, the increase to the I/I program would go into effect with the new Phases 9 and 10. Some communities may be years away from utilizing their Phase 9 and 10 monies because they haven't spent the funds from preceding phases. Then there are communities like Chelsea and Norwood and half-a-dozen others that would be ready on July 1 to start spending Phase 9. It would be nice to have the directive in play for what is likely to be the next five to ten years. It would be difficult to know who is on a 45% grant or 75% grant or a five-year repayment plan or ten-year repayment plan. That was the thought behind the recommendation.

In regard to the concern about use of those funds, there is a direct relationship between the Authority staff and community staff. Having a lower repayment in the case of 75% grant/25% loan may allow communities to more aggressively deal with their I/I issues. When all is said and done, the communities are paying it back no matter what, either through the assessments for the grant or directly through the loan. Communities love the program and there have been results.

Mr. Coffey said he would suggest that the program be tripled or quadrupled. Every dollar we put into it benefits the MWRA and the communities. Mr. Romero noted that it is easier for the public works departments to "sell" these projects to their community because these projects don't have to compete with schools or other municipal departments. It is being paid back anyway but from a public works perspective it provides an easier accessibility to funds.

Mr. DeAmicis said he is not from the public works department and he is uncomfortable. Mr. Coffey said if Stoneham is following the 45/55% then your sewer bill is double what it should be. Mr. Taverna said Stoneham's Public Works Department should be jumping up and down over this program. Mr. DeAmicis said they most likely are but he is here to represent the ratepayer.

Mr. Coffey said he believes this is the best financial investment the City of Quincy ever makes to take care of the "holes" in its system. Mr. Favaloro said the other thought process behind this is from a community perspective, $160 million is a lot of money. The goal here is to get communities to do I/I work. To add $160 million for the communities' sake and to have it repaid over five years, one, and at a 45/55% allocation, you may not get that work done because it will add up as an annual repayments back to the MWRA. The intent was to ease the impact on communities so they could actually afford themselves of the program. The thought process from staff was that the time to do it would be the start of a new phase.

Chairman Dunphy said Stoneham could decide to go slow and do it over a period of ten years. Mr. Taverna noted that there is much more benefit to the town to reduce I/I than it is to be paying, whether it is 55% or 25%. We want to reduce I/I; it affects everybody. This is an incentive for your town and my town to get this work done. Mr. DeAmicis said he didn't want to over-incent this money being spent. Mr. Taverna said that he needs this money for Newton; it can't be spent fast enough. Fifty to sixty percent of his flow is I/I.

Mr. Coffey said if Quincy could eliminate 10% of its I/I, it would save $1 million for the ratepayers. More than half of the sewer bill relates to I/I.

IV. Advisory Board Budget

Mr. Favaloro said the Advisory Board currently has about $26,000 in unexpended funds for FY14. Staff would like to use some of these funds for capital expenditures, such as laptops and a postage meter, which would be roughly a $6,000+ investment.

We would also like to bring forward some of these funds to put toward next year's budget so that the amount requested of the MWRA can be reduced. The remainder of the funds would be utilized toward a reserve, which would help to cover the vacation/sick time liability and to cover a one and one-half month reserve.

Staff will bring the Advisory Board budget before the Executive Committee next month for a vote.

V. Legislative Update

A. Release of House Budget

There was a 10% increase in Debt Service Assistance (DSA), which was higher than the average increase for other programs. The House included $1.1 million; however, the Governor's budget did not include anything for DSA. Staff will be meeting with Senator Brewer to work to get DSA on the Senate side.

An Act improving drinking water and wastewater infrastructure

B. Status of S2021 (*An Act Improving the Drinking Water and Wastewater Infrastructure)*

S2021 passed the Senate and is now in the House and will deal with it in this session. There should be an infrastructure bill before the Governor by the end of July.

VI. Approval of the Advisory Board Agenda for April 17, 2014

A motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE APRIL 17, 2014 MEETING.** It was seconded and passed by unanimous vote.

VII. Adjournment

A motion was made **TO ADJOURN THE MEETING AT 10:08 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

William P Hadley

William Hadley, Secretary