



Executive Committee Meeting

Friday, April 10, 2015
8:30 AM

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

Attendees

Michael Rademacher	Arlington	John Carroll	MWRA Board	John DeAmicis	Stoneham
John Sullivan	Boston	Joe Foti	MWRA Board	Joseph Favaloro	Staff
John Sanchez	Burlington	Lou Taverna	Newton	Matthew Romero	Staff
Tim MacDonald	Cambridge	Bernie Cooper	Norwood	Cornelia Potter	Staff
Andy DeSantis	Chelsea	Nick Rystrom	Revere	Travis Ahern	Staff
William Hadley	Lexington	Rob King	Somerville	Mary Ann McClellan	Staff
Katherine Dunphy	Milton				

MINUTES APPROVED AT THE MAY 15, 2015 MEETING

I. Approval of the March 13, 2015 Minutes of the Executive Committee

Chairman Katherine Haynes Dunphy called the meeting to order at 8:30 a.m. A motion was made **TO APPROVE THE MARCH 13, 2015 MINUTES OF THE EXECUTIVE COMMITTEE**. It was seconded and passed by unanimous vote.

II. Emerging Advisory Board Budget Review Comments

MWRA Advisory Board Executive Director Joseph Favaloro stated that staff will provide the Committee with information regarding the direction that staff is taking in its review of the Current Expense Budget (CEB) and Capital Improvement Plan (CIP).

Director of Communications Matthew Romero stated that a number of milestones have been met and are setting the course for this year’s review. “Back in the day” the sound bite was to ask what was “environmentally sound and ratepayer equitable” for the Authority’s actions; this is still true but staff has added “sustainable and predictable” water and sewer assessments for the communities as well. This has been the mantra in recent years.

The Advisory Board pushed for a change to the bond covenants and was successful in getting the reserves released for the FY16 timeframe.

When other post-employment benefits (OPEB) first came onto everyone’s “radar screen,” staff pushed hard to ensure that there would be no irrevocable trust established because if a trust were set up and the Authority didn’t fund it in a particular year, it may have a negative impact with the rating agencies. Additionally, at that point, the Authority was still significantly underfunded in its pension liability. The Authority and the financial advisors bought into the Advisory Board’s recommendation to fully fund the pension first by looking at both liabilities as a sum total and rather than fund both at the same time, it was decided to fully fund the pension fund first and then move forward with an irrevocable trust for the OPEB liability.

At the Long-Term Rates Management Committee (LTRMC) meeting held on March 19, 2015, John DeAmicis had asked how it would be determined that the pension fund was fully funded. Mr. Romero stated that MWRA staff researched this topic and the general practice is to consider 95% to 105% as virtual full funding for the pension liability. Staff is still waiting on the actuarial study but it is anticipated that the Authority will be at full funding in FY16, which means it is now time to discuss options on how to move forward with OPEB.

From 2006 to 2015, the Authority has defeased over \$335 million; the Advisory Board endorses this strategy.

With regard to the released reserves, there are two components. The Debt Service Reserve (DSR) is tied to specific maturities and can only be used in the years that apply to those specific bond maturities. The DSR totals \$67.1 million. The second component of \$46.3 million in released reserves can be used at the Authority's discretion, with input from the LTRMC.

Taking a look back at when the Advisory Board first started to look at a multi-year strategy, rather than a one-year approach, the proposed FY13 budget was the budget in which staff began in this direction. At that point, rate increases were proposed in the 8%+ range. A "bull's-eye" was placed on FY17 to ensure that by the time the Authority got to FY17, the proposed rate increase could be brought down significantly from where it was in the high 8s.

Moving forward to the FY16 CEB, the Authority has proposed a rate increase just over 4% and FY17, which once was projected to be at 8.8%, is now anticipated to be at 3.9%. The Authority has worked diligently to bring those numbers down, in particular for FY17.

The Advisory Board has coined the term "four no more," which the MWRA has essentially bought into.

For the FY16 review, Advisory Board staff has the same types of "tools" that it usually has. Staff will find reductions within the budget and will recommend that they be backed out of rate stabilization use. It should be noted that the Authority has already reduced a number of items that the Advisory Board would ordinarily target for reduction. For example, the Authority assumed no new National Pollutant Discharge Elimination System (NPDES) permit for FY16. The Authority used to include funding for a full year of the NPDES permit, then reduced it to half of the year; this year they assumed nothing and would have been a significant amount for the budget to be reduced, but the MWRA has already done it so the Advisory Board will not be able to back out amounts for permit-related chemicals in the FY16 budget.

Even smaller items, such as the beach nourishment study, that staff had put in reductions for are no longer available. Staff does not anticipate a long list of reductions.

One thing staff is looking at is the vacancy rate. The Authority has a certain number of funded positions. When someone retires, the Authority saves money on their salary and fringe benefits; then the position is posted and if someone is hired from within, the trend continues with that person's position being posted. This process takes a significant amount of time to finally get to an external hire, if in fact they decide to fill that position. For that period of time, the Authority has the benefit of under spending for vacant positions at different levels. As a placeholder, staff has used \$100,000 for each vacancy over a given year, which includes an average of salary and fringe benefits.

The Authority includes a proposed vacancy rate; however, Advisory Board staff plans to recommend that their vacancy rate be increased because it believes that positions will take longer to fill than projected.

The Authority was supposed to deposit \$6.7 million into the CORE fund, however, it does not have to make this deposit because the CORE fund is part of the unencumbered reserves that the MWRA can use to offset debt. Under the terms of the bond covenant, there will also be a release of CORE funds as well.

Mr. DeAmicis asked if the funding for the CORE fund is in the debt service budget. Mr. Romero said it would be in the larger category of capital financing.

Staff has also been incorporating real time information into the budget and actually is making adjustments where the MWRA will have to make increases, taking into account things like health insurance, which generally goes up from the proposed budget to the final budget depending on what the Group Insurance Commission issues.

Contaminant monitoring deals specifically with the trains that go over the Wachusett Reservoir. There has been some significant concern about the potential of having a train derailment over the reservoir and what the impact would be on the water. In December, the Authority did a tabletop drill with PanAm (the train company) and MWRA staff, which resulted in determining the need for equipment to be put in place immediately so that staff can be prepared if a spill were to occur. In the past, MWRA would not have been able to add this to the final document because it was not included in the proposed document and the Advisory Board would not have had a chance to review this addition. With the two staffs working closely, it gives the Authority an opportunity to add in safety related equipment in the final budget that they didn't anticipate in the proposed, but it still preserves and respects the Advisory Board's review process.

Mr. DeAmicis asked how much the health insurance would go up. Mr. Romero said that the GIC will make that decision but it is expected to increase. Mr. Favaloro noted that there is also legislation that may be enacted that will increase those employees that are paying 20% toward their health insurance to 25%. Additionally, a significant amount of the employees at the MWRA are in the Tufts Navigator health plan, which is the plan that is changing the most. That may shift many of the participants to other plans.

Mr. Romero noted that rate stabilization is a tool that is typically used by the Authority and when the Advisory Board finds a dollar amount that can be deducted from the MWRA's budget, it is usually recommended that this amount be backed out of the rate stabilization usage to preserve these funds for future use. The approach has always been about judicious use. It is helpful to use rate stabilization and bond redemption funds to manage the rates to the appropriate level but it should be a judicious use of those funds.

The Advisory Board recommended the convening of a Long-Term Rates Management Committee several years ago to take a look at the potential use of the unencumbered reserves. Options were considered but a final recommendation was not made until the release was actually imminent. The Authority did reconvene the committee in March 2015 to talk about the use of the \$46.3 million in unencumbered reserves (CORE and Renewal and Replacement Reserves combined), for which the Authority had discretion for their use. The LTRMC determined that \$10 million would be put into an irrevocable trust for OPEB and the remainder will be used for defeasance moving forward. This will keep the rates under 4% through FY20. In all, 90% of the released reserves are going to be used to reduce rate assessments for the member communities. It is anticipated that this review will recommend a rate increase in the "3.4s".

John Sullivan asked if these increases would go down in the future as debt goes down. Mr. Favaloro said it would depend on what gets filled in with the capital budget review and the setting of the caps and the business and master planning processes. Staff to staff they have begun to float their next largest water project, for instance, is the city tunnel and that could have an \$800+ million price tag associated with it. That is a major capital budget item that has not come into play yet.

Bernie Cooper asked what percentage of the operating budget is devoted to salaries. Mr. Romero said wages and salaries is the most significant cost center. Cornelia Potter noted that it is about 40% of the direct expenses. It does not include overtime or fringe costs.

Mr. DeAmicis said the power and fuel budget seems higher than last year's budget and the prices last year were higher than this year. He stated that he thought electricity and diesel fuel would be a lot lower than the budgeted amount. Mr. Romero said staff would look into it.

In the CIP, the expansion of the Inflow/Infiltration (I/I) Program has been beyond a success. Through March, Phase 9 funding that has already been distributed totaled \$10.7 million between nine communities. The City of Newton and the City of Waltham have taken all of their Phase 9 funds and have begun reducing I/I in their systems. Mr. Taverna has indicated that the City of Newton will seek to get their Phase 10 funding as well as soon as it is available.

The MWRA typically receives \$500,000 per year from the state for the operation of the Clinton Wastewater Treatment Plant, which actually costs millions to operate. The state budget does not currently include the \$500,000, so staff is proposing to hold the \$7.1 million for the Clinton Phosphorous Removal Project until the \$500,000 is received. There are two ways to get these funds. First, the legislature could restore it, which is clearly the preferred outcome; or, the MWRA should seek these funds from the Town of Clinton.

Because it is the 30th anniversary of the Authority and the Advisory Board, staff is gathering information to include in this year's document regarding milestones that have been reached on MWRA projects and Advisory Board recommendations and will follow along with updates as each milestone occurs.

Policy issues will also be flagged. The first one is molybdenum. The Massachusetts DEP limit for molybdenum in pellets is 25 mg/kg, which means that for several months per year, the Authority cannot sell its fertilizer in Massachusetts. DEP's limit is 75 mg/kg. New York State's level is 40 mg/kg, based on a study from Cornell. If the Authority could get the state of Massachusetts increase its level to between 37 to 40 mg/kg, the Authority would be able to sell its pellets year-round in Massachusetts. The recommendation for this year is that by FY17, the Advisory Board wants the Authority to be able to sell its pellets within the state year-round. Other options would be to permit molybdenum and have significant industrial users be regulated through the Toxic Reduction and Control (TRAC) Program at the MWRA or to ban molybdenum throughout the wastewater system. Mr. Favaloro noted that staff has met with the associations that have the cooling towers and gave them the "carrot and stick" speech. We have already brought this to the Governor's attention as well seeking a recommendation for a solution to this.

Mr. Romero noted that staff raised the issue of primacy a few years back as part of its *Comments and Recommendations*. Massachusetts is one of four states that does not have primacy, which is essentially EPA delegating authority to manage the NPDES program to the local state authority (Department of Environmental Protection – DEP), rather than managing it themselves. MA DEP has primacy on the water side but not on the wastewater side at this point. Mr. Favaloro said the last time we brought this up, the legislature voted to put a task force together to take a look at the pros and cons of primacy on the wastewater side. The report was filed and detailed a couple of issues associated with it; one was how would it be funded – which could be state participation and user participation, evenly distributed. Many of the environmental groups were concerned with giving DEP primacy because they felt DEP would be a lot more understanding working with the communities and entities within the state, where EPA would apt to be heavier handed and get everyone's environmental goals met sooner.

Mr. Favaloro said with stormwater discussion coming up, this is really the time to bring primacy up again because the Municipal Separate Storm Sewer System (MS4) permits are going to have a significant impact and you want to work with an entity that wants to work with you. Mr. Romero said there may be more of an appetite to move toward primacy with the potential MS4 costs looming.

John Carroll stated that there are 120 outfalls in Norwood. He would like to know why it is going to cost millions of dollars for each community to do outfall cleanups. Mr. Sullivan said for every illegal connection, the community will have to do sampling there and then have to find all the illicit connections. Mr. Sullivan said that the Boston Water and Sewer Commission (BWSC) found over 1,100 and in places where buildings were tied into the storm drain and now we are finding house laterals and although the house works just fine, there is a little crack in the joint and it is leaking from that lateral somewhere and getting into the storm drain and it will cost you a fortune to find it and then you get to tell the homeowner that they have to come up with between \$8,000 and \$12,000 to fix something that is working perfectly fine. The cost of finding it is phenomenally high.

Mr. Carroll said so the idea of treatment at the end of the outfalls isn't any good. Mr. Sullivan said there was a finding in Maryland that the best practical measures must be used. He doesn't see ever putting treatment at the end of the pipes.

Mr. Carroll said he wonders whether the Authority has a role to play in this whole business. Mr. Sullivan said their role is to make sure they keep out of it. If you need a regional stormwater utility, it should not be the Authority doing it. Andrew DeSantis said it would be better to go by basin. There are small grants from DEP to look at doing that. Mr. Sullivan noted that he is not sure that everyone realizes that once that permit is issued, the communities have to get up and running.

Mr. Favaloro said he personally believes having the Authority be a part of the MS4 program is a bad idea. It would add billions of dollars of debt to the Authority with no way to recover those costs. Bernie Cooper added the Authority has credibility in terms of management and honesty, but he doesn't fully understand the implications. Mr. Romero said the budget for staffing would be tremendous because a whole new utility would need to be built.

Mr. Romero said with the pension at virtual full funding level beginning in FY16, the LTRMC recommended putting the \$10 million into an irrevocable trust for OPEB. The last piece is that staff is going to push on the operating reserve requirement, which basically says the Authority has to have a reserve that covers one-sixth of all of their operating expenses. In the past, pension has qualified for this reserve and the Advisory Board has conceded that point because when you have a requirement to fully fund your pension by a date certain, with an actuarial study that says you have an annual required contribution (ARC), you are required to pay it. Because of that people believe that the OPEB liability is subject to the operating reserve one-sixth requirement as well. Staff's argument is that it is not, just looking at their planning projections and the \$10 million that they are going to be putting in, in the final budget what you will see in the out years is that they are putting in half of their ARC, but how can you put in half of your ARC? You can only do it when the contribution is not actually required, which it is not. For the OPEB liability, the only requirement is to list their unfunded liability on their balance sheet, which they have done since the terms of GASB45 went into effect.

Beyond that, beginning to fund OPEB is a good idea now that the pension is broaching full funding. Unlike the pension that said you had to fully fund by this date certain and the required amount to deposit annually, the Authority has the ability to determine what level the OPEB contribution is going to be from year to year. In this case, they could opt to not make a payment to OPEB if they choose. If the Authority has the ability to adjust this payment, then it is no longer a required operating expense and should not be subject to the operating reserve requirements. In terms of what this means in dollars, for example, the \$10 million deposit would have required a \$1.7 million deposit to the operating reserve.

Next steps include a wrap-up meeting with MWRA Chief Operating Officer Michael Hornbrook at the end of April, which will cover the Authority's changing assumptions from the proposed to the most current projections. On May 21, the Advisory Board will have an official vote on the *Comments and Recommendations* and it will be transmitted to the Authority and they will provide us with their responses to the comments and recommendations in May as well. On June 3, a presentation will be made to the Administration and Finance Committee of the MWRA Board of Directors and the final June meeting of the Board of Directors will have the final vote on the CEB and CIP budgets for FY16.

Staff will provide the Executive Committee with a [link](#) to see the evolving changes to the document moving forward.

III. Draft FY16 Advisory Board Budget

Mr. Favaloro provided the Executive Committee with a preview of the Advisory Board's FY16 Operating Budget, which is nearly a \$23,000 increase over FY15. Contributing to the increase are the salary increases as were determined by the staffing and compensation study and a renegotiated lease for office space. With the use of iPads, the Advisory Board now has a Comcast bill for WiFi service in the office, which was not part of last year's bills. The projection for the end of FY15 is over the amount budgeted. Staff is ratcheting down to control that between now and the end of the year but now we have to roll the Comcast cost into FY16.

Another piece that was significant last year was the community workshop, which was so well received that staff would like to continue with workshops on an annual basis. This will cause the public meetings line item to increase.

IV. Action Item: Process and Timeline for the Election of an Advisory Board Representative to the MWRA Board of Directors

A motion was made **TO APPROVE THE PROCESS AND TIMELINE FOR THE ELECTION OF AN ADVISORY BOARD REPRESENTATIVE TO THE MWRA BOARD OF DIRECTORS**. It was seconded and passed by unanimous vote.

V. Legislative Update

Mr. Favaloro stated that the Governor's budget did not include funds for the Clinton Wastewater Treatment Plant and Debt Service Assistance (DSA). The FY15 DSA allocation was 9c'd. Staff has already made calls to leadership and has met with Representative Hank Naughton regarding the language for the Clinton Treatment Plant. If we are successful in getting DSA for FY16, it would be used to offset the FY17 rate revenue requirement. The Speaker has indicated that there will be an allocation for DSA on the House side.

VI. Status: System Expansion Requests

Mr. Favaloro noted that Ashland is going to Town Meeting next month to try to get support for admission to be partially supplied by the MWRA water system. Staff will be meeting with Hingham next week to discuss a small expansion of the Hingham Sewer District. Tri-Town (Braintree, Holbrook and Randolph) talks have subsided. Additionally, North Reading is in the process of joining the water system, in the three to five year horizon. Joe Foti, who serves as a member of the Board of Selectmen in North Reading, noted that the Town is in discussions with Andover on a plan (North Reading currently purchases 70% of its water from Andover) and they are looking for a ten-year agreement with North Reading. If North Reading were to leave early for the MWRA, then Andover would

be looking for a buy-out. Negotiations have taken place as recently as last Wednesday. North Reading's goal is to tie into the MWRA by 2018. Mr. Favaloro complimented the Town of North Reading for how smoothly the process was proceeding so far; in fact, it's been a model of how to execute this process well.

Mr. Favaloro noted that the Authority is already spilling water over the dam.

VII. Approval of the Advisory Board Agenda for April 16, 2015

One revision was made to the proposed agenda because Steve McCurdy from DEP was unavailable to make the meeting.

A motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE APRIL 16, 2015 MEETING.** It was seconded and passed by unanimous vote.

VIII. Adjournment

A motion was made **TO ADJOURN THE MEETING AT 9:52 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

A handwritten signature in cursive script that reads "William Hadley".

William Hadley, Secretary