



Executive Committee Meeting

Friday, May 15, 2015
8:30 AM

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

Attendees

Michael Rademacher	Arlington	Andrew Pappastergion	MWRA Board	Carol Antonelli	Wakefield
John Sanchez	Burlington	Lou Taverna	Newton	Joseph Favaloro	Staff
Tim MacDonald	Cambridge	Bernie Cooper	Norwood	Matthew Romero	Staff
Andy DeSantis	Chelsea	Nick Rystrom	Revere	Cornelia Potter	Staff
Katherine Dunphy	Milton	Rob King	Somerville	Travis Ahern	Staff
John Carroll	MWRA Board	John DeAmicis	Stoneham	Mary Ann McClellan	Staff

MINUTES APPROVED AT THE JUNE 12, 2015 MEETING

I. Approval of the April 10, 2015 Minutes of the Executive Committee

Chairman Katherine Haynes Dunphy called the meeting to order at 8:36 a.m. A motion was made **TO APPROVE THE APRIL 10, 2015 MINUTES OF THE EXECUTIVE COMMITTEE**. It was seconded and passed by unanimous vote.

II. Action Item: Advisory Board FY16 Operating Budget

MWRA Executive Director Joseph Favaloro noted that staff shared the components of the Advisory Board's proposed FY16 Operating Budget with the Executive Committee at last month's meeting. There is a \$25.00 difference between this budget and the one proposed last month and interest income is acknowledged in this budget. Through April 2015, the Advisory Board has spent 100.3% of its budget.

A motion was made **TO APPROVE THE MWRA ADVISORY BOARD'S FY16 BUDGET OF \$522,520, OFFSET BY INTEREST INCOME OF \$875, WITH THE REQUEST OF THE AUTHORITY BEING \$521,645**. It was seconded and passed by unanimous vote.

III. Action Item: Advisory Board Integrated Comments and Recommendations to the MWRA's Proposed FY16 CIP and CEB (Link: <http://mwraadvisoryboard.com/resources/publications/proposed-fy16-comments-and-recommendations/>)

Communications Director Matthew Romero offered an overview of the *Advisory Board's FY16 Integrated Comments and Recommendations to the Authority's Proposed FY16 CEB and CIP*. On Wednesday, an issue was resolved pertaining to the fish hatchery. The Advisory Board's outright opposition to this project ultimately led to a "win-win-win" situation for everyone involved.

The Advisory Board had been opposed to the fish hatchery project because it involved capital costs for the Authority and its ratepayers that should have been borne by the Commonwealth. The fish hatchery was not part of the Authority's core mission. There was no benefit to the ratepayers.

Over the years, instead of just saying "no" to the project, the Advisory Board had tried various pathways to move forward with the project through an exchange. The first thing that was attempted was to exchange the MWRA/ratepayers' picking up the cost of the capital project for a streamlined system expansion regulatory

process. The argument would be that it would be easier for new water system users to come in and it would spread the base costs for the ratepayers, which would be a benefit to them; it did not come to fruition.

The second was to attempt a cost-neutral situation. The electricity savings that the Commonwealth was going to realize from the new pipeline and not having to pump the water from a different location would save a significant amount of money for electricity and the Advisory Board suggested that the Commonwealth provide the savings it would realize to the Authority toward the debt service on the capital costs for the pipeline. This suggestion didn't go anywhere as well.

Staff remained adamant that the ratepayers should not be paying for anything that they get no benefit from. On Wednesday, the Secretary of Energy and Environmental Affairs Matthew Beaton announced that the Commonwealth would be transferring \$2.5 million through the Division of Fish and Wildlife and the Department of Fish and Game, which would then be transferred to the MWRA toward the capital costs. Additionally, the Authority had already secured two grants for the hydro-electric turbine. Ultimately the \$3.2 million in capital costs for the fish hatchery project are now being contributed by the Commonwealth.

All three entities are contributing to this project and all three will receive benefits. The MWRA's contribution will be building the infrastructure of the pipeline with the funds that the Commonwealth is providing. The Advisory Board and the ratepayers are approving the connection to the water. The Advisory Board votes on new connections to the waterworks system.

The Commonwealth has reduced costs for pumping, reduced costs for chemicals and reduced costs for maintenance and overtime. They are receiving the benefit of the free water that is being provided to them for the fish hatchery and the fish will no longer be "stressed."

The MWRA receives the benefit of not having to pay the capital costs and will realize increased revenue through the hydro-electric turbine. Because the capital costs are already paid in full, the first dollar that comes in from hydro will be revenue. Because of the increased revenues the Advisory Board, and its waterworks member communities, will realize a slightly reduced rate base, resulting in lower assessments for the communities.

By "drawing a line in the sand" and holding to the Advisory Board's core mission, which is to represent the interests of the ratepayers and the communities, it resulted in a win-win-win situation.

Mr. Favaloro said although in the scheme of things, this may not seem significant, these are the "bread and butter" items because these are the ones where you can be adamant and keep the line in the sand and eventually win them. And it saves the ratepayers over \$3 million.

Mr. Romero said another major item that staff is highlighting is capital under-spending, which the Advisory Board has flagged for quite some time. The original FY04-08 capital spending cap was budgeted at \$1.134 billion and wound up being under-spent by about 22.4%. The FY09-13 cap was set at \$1.4 billion and was under-spent by 28.2%. This led Advisory Board staff to recommend that the Authority budget the FY14-18 cap at no greater than \$800 million, which the Authority did.

Two years in to this cap, it is projected that the Authority will be under-spent by 10.6%. It will only get worse because the Authority is behind in its capital program because of the severe weather during the winter. The concern is not about a percent difference of where the baseline cap is; the cap was only lowered because the Authority only had the institutional capacity to spend in the \$800-\$900 million range, and the Advisory Board additionally wanted to challenge them to a lower spending level than their capacity. It is an absolute dollar value; the Authority should be spending this amount of money to maintain the system and not let it run to failure like the MDC. The reason staff is flagging this is that one of the major findings of the MBTA panel was chronic underinvestment. If this is the correct level, that is fine; however, staff wants to ensure that the Advisory Board is out there ahead of the message recognizing this under-spending. Staff's recommendation this year is to find out what the reasons are for the under-spending. If it means the Authority should be spending at a lower level, then the next cap should be lowered. Figure out what needs to be spent to be at the right level for the capital program.

John DeAmicis asked if staff is saying that they need to spend more money. Mr. Favaloro said the message is tell us what you need, agree on what your cap is going to be. Is this the right proposed amount and is it the right amount to spend? If all parties, MWRA, Advisory Board, cities and towns, agree that the Authority should be spending \$790 million over this period of time, all projections are based on that. The reality is the Master Plan says the MWRA needs this funding, the communities agree, why isn't the Authority spending it? If the cap is too high, the number should be ratcheted down again. It is not about "spend the money," it is identify what you need, justify that need, then spend it.

Lou Taverna asked if the Authority is obligated to respond to this. Mr. Favaloro said yes. Mr. Taverna said I am sure there are many reasons why this is happening.

John Sanchez asked if the projects that were proposed within that period were completed. Mr. Romero said no, a lot of the projects slide out. Typically, if they under-spend in the first couple of years, then the pre-projections push a lot of these projects into the later years of the cap but they don't end up actually spending that level either.

The Advisory Board's argument was that the first two caps were clearly too high; the cap was reset at a lower level to be more reflective of what the Authority said it could spend. Now the question is why isn't the Authority spending what it said it could spend? Either it is still too high; in which case it should be ratcheted down. Or, the Authority needs to figure out if there is something wrong with its process.

Mr. Favaloro said Advisory Board staff is more pointed in this document because last year we asked what the issues were and we were told that it was the community-managed projects, along with the I/I and Local Water System Assistance Programs. The Authority has no control over what communities will spend and so they assume they are going to spend "X"; the Advisory Board took that out of the cap and the problem still exists. Staff is just trying to assess what the problem is and fix it.

Mr. DeAmicis said as a ratepayer, maybe it is not a problem. They don't need the money and that is a good thing. Mr. Favaloro responded that staff would like to determine the right number that is needed. We want them to spend what they need because if they fix the infrastructure, it is good for everybody. By the same token, if they don't need it, they are not going to get it. Mr. Taverna added that if you fast forward ten years

and they haven't fixed things, then you will be spending more. Mr. Favaloro said it is as simple as we want them to identify the right number and then spend those dollars.

A member asked if staffing had anything to do with the delays. Mr. Romero stated that staff has asked those questions; however, we are not assuming what the reasons are, we are letting them come to the conclusions as to what is causing it or whether the cap amount is too large. That will affect what our recommendation is.

With regard to the FY16 CEB, the rate proposed by the Advisory Board is 3.36%. One item flagged is staffing; the recommendation that the Advisory Board is putting forward is to increase their vacancy rate assumption by three for the lag time that it takes them to fill positions that are vacated. The assumption would be \$100,000 per position.

Another item flagged was a CORE fund deposit that was tied to the released reserves. It would have been required had the reserves not been released until next year but because the reserves were released this year, these funds do not need to be budgeted.

The utilities line item had been budgeted on the high side and the Authority planned to reduce its number; staff included a number that it believes will be closer to the MWRA's new proposal. That is about a \$1.6 million reduction across utilities.

Mr. Romero noted that Advisory Board staff also included "add backs" into its Comments and Recommendations if staff knows something is going to increase. Additionally, the proposed use of bond redemption funds has been taken out and that will be offset by the reductions that staff found. The net changes the Advisory Board is recommending for the FY16 proposed budget is a \$4.8 million reduction from the rate revenue requirement, which is what gets us to the 3.36% recommendation.

Mr. Favaloro said it has only been in the last couple of years that we have pushed to look at all of the add backs. For many years we would have discussions with the Authority after they had put their budget forward and the Advisory Board would come with its recommendations and then the discussion would take place about all of the recalculations. Staff now looks at the add backs and subtractions leading right up to June so that the numbers are a pretty complete picture. Mr. Romero said it is a more realistic look at what is occurring at the Authority for the next year's budget rather than reviewing a snapshot that is several months old.

Bernie Cooper asked if the Authority is likely to concur with most of the recommendations. Mr. Favaloro said he would imagine that there may be a tick up or a tick down, but for the most part, he assumes there will be agreement.

John DeAmicis said in regard to the Mystic River modeling project, I get the sense that the momentum is increasing on the cleanup of the Mystic River. Mr. Favaloro said "not on my watch." The reality is that one of the landmark victories that came out of this office was to get then-EPA Regional Administrator Bob Varney to sign off on 15 years of variances that no work, be it in the Charles, be it in the Mystic, beyond the work that had already been committed would occur. He signed off on that. In FY18 or FY19, a reevaluation will take place and from there they will determine what, if any, additional work will occur in the Mystic, the Charles or any other basin. Mr. Favaloro noted that the streamgages are the one piece that the MWRA will pay for,

otherwise DEP and EPA will be paying for anything else. This is a stormwater issue in the Mystic. Will the MWRA ultimately have some role in it, absolutely; but at this point in time, it has been pushed out. Between now and whenever that happens, they will be using good data to make those decisions.

Andy DeSantis said he would agree that it is primarily a stormwater issue. The hydraulic capacity study of the north system isn't complete yet; we hope to see that in a couple of months, which will add to the story.

Mr. Favaloro noted that the op-ed piece that appeared in the *Boston Globe* spoke glowingly on different things that were going on complementing USGS for the streamgages efforts but never mentions the MWRA or their investment.

Mr. DeAmicis asked if it would make sense to break these adjustments down into two components: the operating and financing adjustments. Staff said it could be reorganized.

Mr. Romero stated that last year staff had thrown out the phrase "four no more" as an off-handed title for presentation slides and the MWRA has really taken to it. Advisory Board staff is now looking at the new mantra of "four no more...no more!" Staff is looking ahead and the Authority has listed rates under 4% through FY2021, utilizing the released reserves and rate stabilization and bond redemption funds. The Advisory Board's recommendation will move on to the next target to try to bring the rates down even further.

Mr. Favaloro emphasized that staff isn't saying that a 4% increase isn't right but we want MWRA staff to go through the exercise because that is what got them to four no more, which paid its dividends. There's nothing wrong with trying to ratchet down a little more to see where it gets us. They had more tools available to them this time with the released reserves and the pension being fully funded. They did the right thing and used the tools that they had available. Our job is to challenge the Authority to get to the next level.

Mr. Romero noted that the Advisory Board also has several policy recommendations. A representative from the New England Fertilizer Company (NEFCo) will be at the Advisory Board meeting next week regarding molybdenum in the pellets. The New England Bio-Solids and Residuals Association (NEBRA) is going to hold a conference in June and DEP has agreed to come to the table to discuss their molybdenum standard of 25 milligrams per kilogram (mg/kg) and what all the stakeholders have to say about adjusting that standard upward. The topic seems to be moving in the right direction.

The Long-Term Rates Management Committee and the history of how it came about due to this office's efforts, pension and OPEB, the Advisory Board can claim victory on that. Stormwater – the Advisory Board hit on the NPDES co-permittee language and hit on primacy. The conversation has been how we can incorporate stormwater allocations into the assessment fee to fund primacy for DEP. There is discussion on the Clinton phosphorous removal as well. Mr. Favaloro noted that this is the Advisory Board's way of "tickling" that if the \$500,000 of state funds to fund the Clinton Wastewater Treatment Plant don't come through, the Advisory Board objects to doing the phosphorous removal at Clinton. Mr. Favaloro interjected that both the House and the Senate versions contain language that the Advisory Board proposed for this funding. The issue is effectively over.

Mr. Romero said in the policy chapter we have added a section on water revenue generation. There is a section on system expansion entrance fee payments that allows for a grace period and for payments to be

spread out over time, a plan that the MWRA Board of Directors voted to accept. Potential water revenues are also flagged regarding opportunities to sell “untreated water” directly from the reservoir. Mr. Favaloro said that may actually turn out to be one of the real opportunities to expand the system. There are areas in the Wachusett that are interested in getting untreated water. Currently, there is no process or charge to deal with communities that may want “raw” water. There have been meetings with Shrewsbury, Boylston and West Boylston. Perhaps we are missing an opportunity. A sub-committee of Operations should be convened to look at the viability of creating a direct source water charge. It wouldn’t be new in the sense that we have different charges for different communities, everyone pays a per-gallon charge in the metro area but if you are out in the Chicopee Valley Aqueduct, they pay a different assessment charge because they don’t get the services that Somerville or Newton would receive. There is no MetroWest or covered storage, so if that is the case, if we can sell direct source water to a community and get an entrance fee based on a million gallon charge of direct source water, that may be a more viable opportunity moving forward.

Mr. Romero noted that the write up makes it clear that the MWRA would provide the water but the community would be responsible for meeting all the terms of the Safe Drinking Water Act. In many cases they have the ability to treat it; they just don’t have the sources of water to treat.

The second recommendation is water capacity insurance, which is essentially revisiting and renaming the standby fee. This would be for communities that have come to the Authority for water on an emergency basis and they are not really sure that they will be able to meet their water needs. Is it going to be two years in a row or once every five years? The emergency rate is pretty hefty for them. The question is how to balance some sort of standby fee for water insurance for these communities and they wouldn’t have to go through the approval process every time they needed an emergency hookup with increasing rates on each hookup. A portion of the emergency rate could also be assigned to the entrance fee should the community decide to join the MWRA system in the future. This would all be determined by the committee that will convene to discuss this topic.

Rebuilding watershed forestry should be a priority. The Science and Technical Advisory Committee (STAC) report came out three years ago and watershed revenues seem to be building one twig at a time. What is wrong? The Advisory Board is also reiterating its recommendation that the Division of Water Supply Protection go for a green recertification for its forestry program.

Mr. Romero stated that staff worked on a 30-year timeline and Travis Ahern put it together in a nice format to tell the history of the Advisory Board’s efforts through the years. It is a “snapshot” on accomplishments and efforts over the years.

Mr. Favaloro added that there will be a 30th Anniversary Reunion at the Waterworks Museum on June 18th.

Mr. DeAmicis stated that the workers’ compensation line item seems to be a really big number. Does this represent a lot of people? Mr. Favaloro noted that this topic comes up regularly at the Board of Directors meetings. It is averaged over a series of years to come up with a number and frankly, all it takes is one big case to skewer the entire average. Mr. Romero noted that because the Authority self-insures, one case will absolutely spike the number. As part of staff’s briefings, we get a very thorough briefing from workers’ compensation every year and they go into great depth about all of the lengths they go to to ensure that cases are warranted, everything from following recipients with private investigators and having third-party doctors

do evaluations. They really actively manage it and if there is a claim, they try to make sure that it is justified. When they can, they try to provide employees with light duty shifts if they are capable or if not, shift them into the retirement system.

A motion was made **TO APPROVE THE ADVISORY BOARD INTEGRATED COMMENTS AND RECOMMENDATIONS TO THE MWRA'S PROPOSED FY16 CIP AND CEB.** It was seconded and passed by unanimous vote.

IV. Discussion: Annual Review of the Executive Director

The Executive Director's annual review will be held at the June meeting.

V. Action Item: Interviews and Nomination of Candidates to Serve as an Advisory Board Representative to the MWRA Board of Directors

Mr. Favaloro noted that one letter of intent and resume was received from the incumbent Andrew Pappastergion to serve on the MWRA Board of Directors.

Mr. Pappastergion said this is his seventh time asking for the Nominating Committee's nomination to serve on the Board. Eighteen years goes by very quickly. The Board make up is constantly changing; however, the Advisory Board's three representatives are the senior members of the Board. He stated that he will continue to do his best to represent the communities and the ratepayers if given the opportunity.

A motion was made **TO NOMINATE ANDREW PAPPASTERGION TO SERVE AS AN ADVISORY BOARD REPRESENTATIVE TO THE MWRA BOARD OF DIRECTORS BEGINNING JULY 1, 2015 TO JUNE 30, 2018.** It was seconded and passed by unanimous vote.

VI. Legislative Update

Mr. Favaloro stated that the House Budget included \$1.1 million for Debt Service Assistance (DSA). The Senate Budget came out this week and will be debated next week; it does not include DSA, which is no surprise because the Senate uses DSA as a "bargaining chip" with the House to get something in return.

The Clinton funding language is now included in both versions of the budget so it will not go to Conference Committee.

VII. Other Business

John Carroll asked to speak on a subject that has been on his mind. He stated that the estimates regarding the new Municipal Separate Storm Sewer System (MS4) permits are in the hundreds of millions of dollars. Mr. Carroll would like to form a committee composed of Board members, MWRA staff, members of the Advisory Board, and representatives of cities and towns to explore whether or not there is a role for the MWRA to play in the MS4 process.

If the process is going to be as onerous as it looks like it is going to be, perhaps there is a limited role that the MWRA could play, perhaps to be the leader in providing technical assistance, which the Massachusetts Municipal Association (MMA) can't do.

Mr. Taverna said there could be some economies of scale by communities grouping together to provide technical support; maybe a group organization could be appropriate for this.

Mr. Pappastergion said he would be in support of forming a committee to look at it but would be very cautious that EPA would be looking at the MWRA and thinking the Authority has "deep pockets."

Mr. Favaloro said he would stand up next to anyone with his desire to help communities; however, he expressed concern that this is a "slippery slope." Putting together a committee to take a look at it wouldn't be bad but the reality is that communities would probably be better off fighting EPA one on one. EPA is looking for the MWRA or another entity to step up to the plate, be it the co-permittee language, which we have been fighting now for over a decade; instead of EPA calling Cambridge, Boston and Somerville, they would simply have to pick up the phone and call Fred Laskey and tell him that unless he does "X, Y and Z" by next Tuesday, EPA is going to enforce. It would be difficult to enforce against 60 communities but easy to enforce against one authority.

The Executive Committee agreed to put this topic on the agenda for next month.

Mr. Romero noted that the Comments and Recommendations come out strongly against the MWRA being involved with MS4. Mr. Cooper suggested the language be changed to say that the committee will look at the implications of the MS4 permits on the MWRA and its communities.

Chairman Dunphy added her concern that if the MWRA gets involved in this, it could take attention away from the MWRA's capital needs.

VIII. Approval of the Advisory Board Agenda for May 21, 2015

A motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE MAY 21, 2015 MEETING.** It was seconded and passed by unanimous vote.

IX. Adjournment

A motion was made **TO ADJOURN THE MEETING AT 9:54 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,



William Hadley, Secretary