MWRA Advisory Board

Executive Committee Meeting

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

Friday, April 13, 2018

Attendees

Lou Taverna	Newton	Lou Mammolette	Chelsea
Michael Rademacher	Arlington		
John Sanchez	Burlington	Andrew Pappastergion	MWRA Board of
Ralph Pecora	Lexington	Directors	
Elena Proakis Ellis	Melrose		
John DeAmicis	Stoneham	Joe Favaloro	MWRA Advisory Board
Moe Handel	MAPC	Matt Romero	MWRA Advisory Board
David Manugian	Bedford	James Guiod	MWRA Advisory Board
Brendan O'Regan	Saugus	Lenna Ostrodka	MWRA Advisory Board
Nicholas Rystrom	Revere	Cornelia Potter	MWRA Advisory Board
Carol Antonelli	Wakefield		

DRAFT MINUTES

Welcome

The Chairman called the meeting to order at 8:30 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 March 9, 2018. The motion was approved.

Timeline and Process to Elect an Advisory Board Representative to the MWRA Board of Directors

Mr. Favaloro opened the discussion noting that there is little change from year to year, other than who is the candidate and the schedule for the vote. This year the vote is scheduled for June at the upcoming Climate Change Workshop. Mr. Pappastergion confirmed his candidacy for re-election, stating that he had submitted his letter of intent to the Executive Director. He noted that the three Advisory Board members of the Board of the Directors are the three senior members of the Board, which contributes to the effectiveness of the Advisory Board representatives. Upcoming important issues include the water redundancy project and putting a management team in place. The Program Management Division approach (PMD, used as the management model for the Boston Harbor Project) has been recommended by the Advisory Board for this project. The Authority's proposed budget includes funding for a regulatory coordination position and five other new positions as part of the ramping up of staffing dedicated to the redundancy project.

A motion was made to accept the process and timeline for the election of an Advisory Board representative to the MWRA Board of Directors. Interviews of interested candidates and a vote will occur at the June meeting of the Advisory Board. The motion carried.

Joseph E. Favaloro, Executive Director
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Advisory Board Draft Budget

Mr. Favaloro noted that discussion of elements of the proposed FY 2019 budget for the Advisory Board has been ongoing at previous meetings. The possibility of transferring the lease costs for the Advisory Board to the MWRA's budget has been moved back into the Advisory Board. The major change for the budget, also previously discussed, have been reclassifications and adjustments to salaries within the Advisory Board office. Another question was raised regarding the low amount requested in the proposed budget for training. A vote on the budget will be taken at the May Executive Committee meeting.

Climate Change Preparedness Workshop

Mr. Favaloro reported on the work ongoing in preparing for the Climate Change Preparedness Workshop. While many more invitations will be sent out, it is assumed that about 200 people will actually attend. Guest speakers and panelists are being lined up. It should be informative and educational for the communities. There is a website up and running: www.mwraadvisoryboard.com/muniworksclimate. The website includes a video produced by the Advisory Board on climate change and provides updates on invited participants.

Emerging Advisory Board Comments on MWRA's Proposed FY19 CIP and CEB

The Chairman emphasized that the major part of the meeting today is on the Advisory Board's emerging comments on the 2019 budgets for the capital and the current expenses of the agency. The Executive Director noted that budget review is on a year-to-year basis and on a multi-year basis, as well. Much of it is about messaging. The "Four No More" goal (for annual rate/assessment increases for the Authority) was hugely successful because it changed the mindset for the MWRA. One should think about the comments from the Advisory Board as being about "messaging."

Mr. Romero opened his remarks with a focus on the theme for the *Comments*, which takes a longer-term, multi-year focus. The first area of focus will be the near-term, the next five years. After that, the focus is on the next five years, and what are the challenges, goals, and messaging around the approaches to get there. Discussion focused on the next capital spending cap for FY 2019-2023. The presentation also displayed the previous capital spending caps in previous years: the first two caps were set above $1 billion, while the third was based on the Advisory Board's recommendation to ratchet down on their capital spending cap to $800 million, a challenge that they met. The proposed capital spending cap is now back over the billion dollar mark, and is the largest cap that they have proposed to date, at about $1.2 billion. Staff, as part of the review process, has asked how MWRA staff "got there," what is the mix of projects, and why are these necessary in these next five years? Cities and towns have to "tighten their belts" and deal with less than they would like to have and we believe the MWRA should have to deal with less than they propose. Members also noted that work is becoming more expensive, so getting the work done that is proposed is going to be more expensive than it would have been in the past.

MWRA staff believe they have the right mix of projects and they have to deal with; and the requests have not changed much.

Advisory Board staff noted that the Authority staff already know what projects are in the $1.2 billion, and should be the ones to identify how to reduce the spending assumed in that proposed cap level. They need to reprioritize and say which of these are less of a priority and they are going to move them "out" of the timeframe assumed in the proposed level of spending under the cap. Advisory Board stated that this kind of adjustment to lower the proposed cap level has very little to do with redundancy. Members also questioned whether the Authority has the capacity to do what they propose to do including having the staffing levels to support these plans.

The chairman asked staff to describe the basis for the recommended decrease in spending to the $950 million beyond a random decrease – what is the basis of that such as based on prior levels of spending? Staff noted that spending levels are getting closer to prior levels of budgeted spending. This supports a little bit of an increase from the prior cap and the second is a $1 billion is a threshold level of spending which has an impact on the larger perspective of an increase in spending. Mr. Favaloro also noted that the increase in this budget proposal is an increase on one level, but once you get to the next cap, that is going to be a very large number because that is going to be that period where a lot of the redundancy construction is really beginning to move. He also suggested that staff would provide more information about the projects and spending proposed for the next cap, FY19-23.

It should also be recognized that not only has inflation been factored in, but a contingency allowance is also part of the calculation. Furthermore, the Authority staff, earlier in the budget preparation process, put the potential proposed cap at $1.4 billion, as compared to the $1.2 billion proposed for review. It was also noted that borrowing to support the spending at the proposed levels is spread out over time.

Members suggested that there should be more information about what would make up the $950 million.

Another member noted that inflation and a contingency allowance are also factors in the cost estimates, increasing the cost of the capital requirements. Why are staff proposing this increase, and isn't inflation a factor in the increasing cost estimates? Staff has asked for more information as well as to what makes up the increased spending is proposed for the next five years.

Mr. Favaloro noted that in the following five-year period when a lot of the anticipated construction is expected to move forward, it is our job to offer what the appropriate level of spending is. The critical year of the cap is the spending in the first year. After that, we are still doing the CIP review and we can have a better idea of what their actual needs are. But if we go in and start to debate with the MWRA Board and the staff on a number that does not work, or goes beyond a rational defense, we will end up at a number that we have absolutely have no control over. If the Authority has the capacity to do the work, the Advisory Board should not be ratcheting down the work too much. Also, once this cap period is complete, the next cap is going to be even bigger due to a lot of construction that needs to get done. If the Advisory Board recommends a number that is too low and doesn't work, then they could be asking the Authority to do what the communities should not be doing, which is not investing enough funding in their systems when they have the money to invest. Advisory Board staff will provide more information about what is in the $1.2 billion. Members also requested more information about how much funding is being proposed for the redundancy program in the following cap period; it was observed that the amount is currently shown as $348 million for FY24-28, as compared to the $17 million assumed for the upcoming cap period, FY19-23. Staff emphasized that the $348 million number is a placeholder.

Staff noted that we now have a better chance of managing debt through the current expense budget than we do through (the vehicle of) the cap. We can manage the increase in debt through the structure of the new debt that is issued, not through the debt that has already been issued. The managing of rates relating to capital costs is really controlled now on the operating side (as opposed to the capital side).

Staff then highlighted the elements of the I/I program: there will be funding levels of $100 million and $100 million, up from $60 million that had been in the budget. The terms will be the same, with 75% grant and 25% loan. The loans will be interest free with a ten-year repayment period. Phase 12 funds can be accessed once a community has received at least 50% of Phase 11 funds. In addition, there will be another $100 million for loan funds with no grant component to it; the loans will be interest free and a ten-year repayment period and loan distributions will be distributed on the current formula used.

The next question is what is the rate increase that the Advisory Board is going to recommend. Mr. Romero opened his remarks on this question by focusing on the proposed FY19 CEB and the draft one-page summary (referred to as the Dunphy Sheet), regarding the key recommendations to date for adjustments to the proposed Current Expense Budget. Highlights included a proposed recommendation regarding the amount to be budgeted for the OPEB-related costs (which is linked to assumptions for the pension fund contribution including the interpretation of what constitutes “full funding”). The next recommendation calls for a $1.8 million reduction in the optional debt pre-payment to pay down debt service, reflecting level-funding for this item from last year (net of some other savings that would have accrued at the Authority’s proposed prepayment amount for FY19).

Staff continued to clarify a number of other categories of expense, including variable rate debt. The Advisory Board is recommending an assumption of 3.25% for variable rate debt, as compared to the 3.5% assumed in the Authority’s proposed budget. The recommendation still leaves some leeway between the budgeted amount and the actual level of variable rates (currently at 2.12%). Other recommendations included staffing and lowering the vacancy rate assumptions, reflecting a reduction in funding for 4 FTEs; removing funding for enterococcus treatment, as may be required when a NPDES permit is issued (reflecting the assumption that the permit will not be issued in FY19); and debt service assistance funding that can be applied to the FY19 budget, of nearly $1 million, is also proposed in the preliminary Comments. An increase to assumed revenues of $1.0 million also serves to lower the overall budget. On the other hand, spending on electricity expense could go up, due to higher rates assumed for charges from electricity suppliers; the preliminary Comments include an increase of $1 million, and some health insurance rates may also change before the budget is finalized. Capital financing and reserves costs can also expect updates.

These adjustments would result in a revised (and lowered) rate of rate increase of 3.07%. This calculation remains preliminary and will be reworked before being submitted to the full Advisory Board. By a “final” number that would be sent to the April meeting of the Advisory Board, staff expect that the rate increase will be between 3.0 – 3.1%. An additional question was raised regarding the need for a review of all the reserves amounts and whether some of the reserves holding could be applied to rates management in the future. Mr. Favaloro noted that there is always the opportunity to return to that question, that it is a multi-year discussion as it regards the bond covenants and the bond holders making the subject discussion over many years.

Regarding a larger policy and longer-term rates management discussion, staff turned to the previous recommendation regarding “Four No More”. Current rate projections now show lower projections and then negative numbers after about five more years. Staff referred to ongoing discussions with communities about selling more water (which would allow the agency to spread costs over a larger base).

Other future tools include Mass Works grants and other ideas connected to the infrastructure bill, under consideration. Also under discussion is the use of taxable bonds (for such projects as purchasing a portion of the Wachusett Railroad), as well as longer-term debt (such as 40-year bonds) that reflect the long, useful life of such assets proposed for construction as the water redundancy pipelines.

Also under discussion is the use of rate stabilization funds, to reshape projected rate revenue requirements in future years. Now the concept being discussed is “2.4 [%] by ‘24”meaning achieve 2.4% rate increases by FY 2024 and beyond. In the meantime, the pressures on rates are still challenging, with debt service still making up 60-62%

of the current expense budget. As the Advisory Board staff relooking at the view of the future, they are working off the Authority's model of rate projections, with their projection of expenses, inflation, and so on.

Mr. Favaloro, referring to the need for a changing message for the MWRA, framed the discussion with, "the coals under the Authority's feet are not hot enough." This allows us to put a little more heat under those coals. There are very talented individuals at the MWRA and this new messaging will get them to a different spot. By 2024, that message will be changing again. The 2.4% approach sets the ceiling for future rates. This approach sets the tone for continuing the discussion, as we move forward. The approach is beneficial for the future and is intended to get away from volatility and to return back to the sustainable rate increases in the way that the Advisory Board, and the MWRA as well, have championed. In addition, stormwater fees are going to be coming at some point in the next few years. This approach is intended to make dealing with these challenges at least a little bit easier for communities.

To close, staff addressed how the Authority can rise to the challenge, especially given the success of the previous "4 [%] no more" standard as well as the many others they have accomplished over the years. This challenge notes that there are many different tools that could be used, the levels of rate increases where the help is needed, and also challenging rates with "2.4 [%} by '24" moving forward as a new goal.

Approval of the Advisory Board Meeting Agenda for April 19, 2018
A motion was made and seconded to approve the proposed agenda for the upcoming April 19, 2018, meeting of the Advisory Board. The motion was approved.

Adjournment
A motion was made TO ADJOURN THE MEETING AT 10:38 A.M.

Respectfully submitted,

Michael W. Rademacher, Secretary