Executive Committee Meeting

Friday, May 9, 2014
8:30 AM

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

Attendees

Tim MacDonald	Cambridge	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
Andy Pappastergion	MWRA BOD				

MINUTES APPROVED AT THE JUNE 13, 2014 MEETING.

I. Approval of the April 11, 2014 Minutes of the Executive Committee

Chairman Katherine Haynes Dunphy called the meeting to order at 8:39 a.m. A Motion was made **TO APPROVE THE APRIL 11, 2014 MINUTES OF THE EXECUTIVE COMMITTEE.** It was seconded and passed by unanimous vote.

II. Action Item: To Allow the Town of Hudson to Activate a Third Emergency Supply Connection Under MWRA Emergency Water Supply Withdrawals (Policy # OP.05)

MWRA Advisory Board Executive Director Joseph Favaloro reminded members that Hudson received an emergency water supply connection to the MWRA six months ago and at that time indicated that they would likely request an additional six-month emergency connection while work is still being done on their water system. Staff is in receipt of a letter formalizing that request.

Hudson will pay premium charges on the MWRA's prevailing rate, which will add an additional $110,000 over the course of six months for the use of MWRA water.

A motion was made **TO ALLOW THE TOWN OF HUDSON TO ACTIVATE A THIRD EMERGENCY WATER SUPPLY CONNECTION TO THE MWRA WATERWORKS SYSTEM VIA THE CITY OF MARLBOROUGH FOR A SIX-MONTH PERIOD, WITH A START DATE OF JULY 4, 2014 TO JANUARY 1, 2015. HUDSON WILL ABIDE BY THE RULES STIPULATED UNDER MWRA EMERGENCY WATER SUPPLY WITHDRAWALS (POLICY #OP.05), INCLUDING PAYMENT OF A 10% PREMIUM CHARGE OF THE MWRA'S PREVAILING RATE PLUS 110% OF TWO-THIRDS OF THE ASSET VALUE CONTRIBUTION PAYMENT (ENTRANCE FEE EQUIVALENT) AMORTIZED WITH INTEREST OVER 15 YEARS.** It was seconded and passed by unanimous vote.

III. King and Bishop Compensation Study (Potential for Executive Session)

Mr. Favaloro noted that the King and Bishop Compensation Study is complete; discussion on this topic will take place in Executive Session.

A motion was made **TO GO INTO EXECUTIVE SESSION at 8:47 A.M. FOR THE PURPOSE OF DISCUSSING THE KING AND BISHOP COMPENSATION STUDY.** It was seconded and a roll call vote was taken:

Joseph E. Favaloro, Executive Director
100 First Avenue • Building 39 • 4th Floor • Boston, MA 02129 • Telephone: (617) 788-2050 • Fax: (617) 788-2059
Website: www.mwraadvisoryboard.com • Email: mwra.ab@mwra.state.ma.us

Yes	**No**	**Abstain**
Coffey Cooper DeAmicis Dunphy Hadley King MacDonald Rystrom Taverna		

After discussion regarding the King and Bishop Compensation Study, a motion was made **TO RETURN TO OPEN SESSION AT 9:02 A.M.** It was seconded. A roll call vote was taken:

Yes	No	Abstain
Coffey Cooper DeAmicis Dunphy Hadley King MacDonald Rystrom Taverna		

Upon returning to open session at 9:03 a.m., a motion was made **TO ACCEPT THE KING AND BISHOP STUDY AND APPROVAL OF THE STEP PROGRESSION AS PROPOSED BY THE EXECUTIVE DIRECTOR.** It was seconded and passed by unanimous vote.

IV. Action Item: Advisory Board Draft FY15 Operating Budget

Mr. Favaloro provided members with an updated FY15 Operating Budget that assumes the actions that were taken in Executive Session. The Operating Budget for FY15 will be $498,846, which is an increase of 5.6%. For the $23,000 in funds that were not utilized in FY14, Mr. Favaloro recommended the following:

1) Transfer $11,000 to the Capital account to upgrade laptops, purchase a postage machine and iPads/Wi-Fi service at the Navy Yard for the Executive Committee, which will still leave funds in the capital account to purchase a "SMART Board" should the Advisory Board remain at its current location; 2) Transfer $8,000 into the operating reserve to allow the Advisory Board to have a five to six week operating reserve; 3) The remaining $4,000 would go toward offsetting the FY15 Advisory Board budget.

Bernie Cooper asked if the Advisory Board would use the same guidelines as the MWRA in regard to use of the iPads. Mr. Favaloro said the Advisory Board would begin with the same guidelines, but there could be tweaks for the Advisory Board. Mr. Cooper said he would likely use the I-pad at work as well; then there would be information on his iPad that comes from his employer that is tied into the MWRA's network. Director of Communications Matthew Romero said these devices would not be tied into the MWRA's network. For example, if a member were to use the Authority's Wi-Fi, they would not be able to check the Red Sox scores, but at home, using their personal Wi-Fi, they could check the Red Sox scores. He noted, however, that browser history and downloads could be extracted from the devices.

A motion was made **TO APPROVE THE MWRA ADVISORY BOARD'S FY15 OPERATING BUDGET OF $498,846, WITH A REQUEST OF THE AUTHORITY FOR $494,046 (BASED ON A $4,000 FY14 SURPLUS AND $800 IN ANTICIPATED INTEREST).** It was seconded and passed by unanimous vote.

V. Action Item: Advisory Board Emerging Integrated Comments and Recommendations on the Authority's Proposed FY15 CIP and CEB (Link – http://1drv.ms/1eMbRXB)

Mr. Romero said the Advisory Board is challenging the Authority to keep rate increases below 4% for the timeframe of FY15 through FY20.

The proposed FY15 CEB has a 3.57% proposed assessment increase; the Advisory Board's recommendations would decrease this assessment to 3.43%. Staff is proposing to "tweak" the FY15 budget rather than make drastic cuts because reductions to the FY15 budget have repercussions on the FY16 to FY20 budgets as well, which are currently projected to have an increase greater than 4%, with FY17 and FY20 having the greatest increases. The anticipated defeasance transaction that is proposed for the end of this year will also help to bring these increases down.

In a "paying it forward" recommendation, staff is proposing that the $853,660 that the Authority has physically received from Debt Service Assistance (DSA) for FY14 be used to reduce the FY15 rate revenue requirement. The Authority has already agreed with this concept. Advisory Board staff believes that future DSA should be used to reduce the following year's rate revenue requirement as a practice. This would show the legislature that its efforts to provide DSA will result in a direct benefit to the communities and their ratepayers and will help reduce rates immediately in the following year.

Staff found an additional $1.3 million to cut from proposed expenditures but plans to ask that the use of $7.8 million in rate stabilization funds be reduced. The total of available rate stabilization funds, including the $7.8 million the Authority is planning to use, is $36.5 million. In essence, the MWRA is planning to use over 20% of its rate stabilization funds that are available in the next year. The Advisory Board would like to preserve those funds to ensure that the Authority has this tool for some of the challenging years coming up.

Defeasance is a strategy that has worked very well. The defeasance account strategy has been widely embraced and effectively used by the MWRA. Currently, staff is hearing preliminary estimates of what the defeasance transaction will be; next week, the Board of Directors will receive an actual number for a vote. The primary benefit of this transaction is to help reduce the anticipated rate increase for FY17.

On the CIP, the Authority has reduced its cap to a more streamlined number and is still not utilizing the full benefit of the funds available. Advisory Board staff would like to create a "project pipeline" for which the criteria would be stand-alone projects. The projects cannot be sequential in that one piece has to wait for another to complete the project. Once they are "shovel ready," they can be put into this "project pipeline." The way to think about it is project swapping. If a project is delayed, another project can be brought forward to ensure that Authority staff is being utilized and that projects are moving forward on the capital program.

The *Comments and Recommendations* corroborate the Operations Committee's vote to increase Phases 9 and 10 of the I/I Program to $80 million per phase. It also requests that an "automatic trigger" be assigned as to when the Phase 10 funds will be available so that communities will not have to wait for an approval from the Board of Directors in order to start budgeting for these funds ahead of time.

Additionally, staff is recommending that the payback period for communities be extended to ten years for the loan portion of the I/I program, increased from the current five-year payback. For Phases 9 and 10, staff is also recommending a 75% grant/25% loan for the I/I Program, instead of the current 45% grant/55% loan.

For policies, with regard to regulations, the Advisory Board discusses the concentration of molybdenum in the Authority's bio-solids – the pellets that are created by the New England Fertilizer Company (NEFCo). The Environmental Protection Agency (EPA) limit for bio-solids that are allowed in farmland is 75 milligrams per kilogram (mg/Kg), while the Massachusetts Department of Environmental Protection's (DEP's) limit is 25 mg/Kg. During the summer, the cooling towers from buildings in the greater Boston area contribute to bumping the molybdenum level just over the DEP limit of 25 mg/Kg, which is exceptionally far apart from the EPA's limit. The goal is to get to a place where this product can be placed in state all year round without having to take any extra steps. Options include exploring an MWRA-specific variance from DEP, changing the DEP regulations to slightly bump up the limit, or banning molybdenum.

With regard to co-digestion, the Authority was actually the entity that placed this pilot program on hold. After a meeting in Winthrop where concerned citizens and the Speaker of the House said they were not comfortable with all of the trucks for the pilot program, the Authority put the program on hold and said they would look at other options.

After that point, the Advisory Board put forward its questions. Questions include:

1) Will there be any mitigation costs with regard to truck traffic, not only in Winthrop but also Charlestown, as well, and who will be responsible for them? The Advisory Board's adamant position is that this should be between the contractor that is transporting the organic waste to the Authority and the Commonwealth whose initiative this is. The Authority should stay out of any mitigation discussions.

2) What are the additional costs associated with barging? How much will it cost to do the pilot program and then what will it cost to scale it up to a full program?

3) Will work need to be done on the pier? Will dredging be required? What are these costs and how will they factor in to the payback in the cost-benefit analysis.

4) Piping will be required to bring the materials from the barge to the digesters; will there be temporary piping that will be expanded if the program becomes permanent? These are all additional costs that were not in the original plan.

5) Scaling the infrastructure: the Authority is updating its combined heat and power generator to more effectively capture the energy from the digesters. Is this something that would have been built if the Authority was not doing co-digestion? How much bigger is it and how much is it going to cost in order to take the additional food waste? That should be included in the cost-benefit analysis because this money would not have been spent otherwise.

6) With more materials going into the digester, additional pellets will result. Terms of the new residuals contract will likely change because of these additional materials. An extra ton per day could be significant and also needs to be factored in.

7) What are the contractor's costs? Now that they are barging will they pass along costs to the Authority? What other costs have the contractors found as part of their process because they are in it to make money as well? How does that affect the tipping fee? You can't just take the material and use the savings and the heat generation to make the money; we have to create some sort of a tipping fee for the contractor in order to ensure that the payback is quick. With all of these additional costs, that tipping fee is going to go up.

8) These regulations are set to go into effect in October 2014. The MWRA is not going to be ready for co-digestion but all of these entities still have to take it out of the solid waste stream so they will have to pay somebody, whether it is Waste Management or BFI to truck it to a pig farm or an out-of-state landfill. When the Authority is ready for co-digestion, are these entities going to switch their provider and give the Authority their organic waste; only if it is

advantageous for them. If the MWRA is charging a tipping fee, can Waste Management be competitive with other waste companies?

To be clear, the Advisory Board's position is that it doesn't have one; staff is simply asking questions. Once there are answers, then the Advisory Board can make a recommendation. All the Advisory Board has done is to concur with the Authority's decision to pause on this program and raise all of these questions because we need to make sure that all of these questions are answered, verified and factored into the decisions being made before resuming the pilot program.

The Advisory Board had advocated for legislation that would provide a dedicated fund for state-wide water and sewer infrastructure needs for cities, towns and entities like the MWRA. Last is recognizing that communities and entities like the MWRA who have already invested in their infrastructure are now paying back all of that debt; this is where the Advisory Board believes there should be some recognition of this and some assistance for that.

Senate Bill 2021 expands the SRF as its chosen form for a dedicated infrastructure fund; includes 50/50 matching funds proposed for entrance fees for communities that would like to enter a system like the MWRA; principal forgiveness for connection costs; dedicated funds for I/I project reimbursement, subject to appropriation, are also included.

One item not mentioned in Senate Bill 2021 is Debt Service Assistance (DSA). DSA is included in the House Budget at $1.1 million and the Advisory Board is hopeful that it will be included in the final State Budget.

John DeAmicis asked if anything has happened in the last month regarding co-digestion. Mr. Favaloro said the Authority has continued to update the Board of Directors; there was a spirited conversation at the Board of Directors meeting with some members believing that it is the MWRA's obligation as an environmental agency to do co-digestion versus other members that believe that the MWRA has an obligation to the ratepayers.

Bernie Cooper asked if other communities have schools that fall under this organic waste requirement. Lou Taverna said that individual schools would not likely fall into this category, but if the food is prepared as an aggregate through a commissary, these regulations would apply.

Mr. Cooper said in his town, the school food directors are just getting together this month because most of them don't know about it. Mr. Taverna said Newton is doing a pilot program for 600 residential homes starting in the fall. The idea was to truck it off to Deer Island but that is not going to happen.

Mr. Favaloro asked if co-digestion is off the table for the time being, will the pilot program have two bins – one for a pig farm and the other for composting. Mr. Taverna said that is a very good question to which he didn't have the answer.

Mr. DeAmicis said for the past several years, staff has had some "target" in its budget comments. Mr. Favaloro said this year's focus is to keep rate increases under 4%.

A motion was made **TO APPROVE THE MWRA ADVISORY BOARD'S INTEGRATED COMMENTS AND RECOMMENDATIONS ON THE AUTHORITY'S PROPOSED FY15 CIP AND CEB.** It was seconded and passed by unanimous vote.

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

Mr. Favaloro stated that John Carroll's term on the MWRA Board of Directors expires on June 30, 2014. Mr. Carroll has submitted a letter of intent and resume for the committee's consideration, acting as the Nominating Committee. It is the only letter and resume received by the Advisory Board.

Mr. Carroll stated that this June 30th will complete 29 years serving on the Board of Directors. He stated that he is 86 years old, loves the MWRA Board and is healthy. He stated that he likes to work and loves to negotiate. He has enjoyed serving on the Board with Andy Pappastergion and Joe Foti, and he believes that the three make a very good team, working together very well. Mr. Carroll said he brought forth the idea of doubling the I/I program and that he tries to contribute in serving the interests of the 60 communities in the MWRA district.

Chairman Dunphy stated that the Advisory Board is very fortunate to have Mr. Carroll representing its interests.

The Executive Committee, acting as the Nominating Committee, made a motion **TO NOMINATE JOHN J. CARROLL TO SERVE AS AN ADVISORY BOARD REPRESENTATIVE ON THE MWRA BOARD OF DIRECTORS FROM JULY 1, 2014 TO JUNE 30, 2017.** It was seconded and passed by unanimous vote.

Mr. Carroll expressed his thanks.

VII. Updates:

- **Co-Digestion**

Mr. Favaloro stated that there has been a lot of discussion at the Board level and at the Advisory Board on co-digestion. Supporting the Authority on its “pause” of the pilot program and utilizing this time to pose questions will hopefully result in better, more complete information.

To his credit, DEP Commissioner David Cash will be at the June Advisory Board meeting. He will be able to talk about co-digestion, molybdenum, SWMI, water restrictions and inter-basin transfer issues, which are all issues that the Advisory Board has been actively involved.

- **Entrance Fees**

There have been approximately 20 meetings between Tri-Town (Braintree, Holbrook and Randolph) and Authority and Advisory Board staff to try to bring Tri-Town into the MWRA system. The sticking point continues to be entrance fees. Staff has created a Green Sheet video on the history of the entrance fee, which was played for the Committee.

MWRA Advisory Board Finance and Policy Analyst Travis Ahern noted that this video covers 120 years of the Metropolitan Waterworks System through multiple agencies, with a focus on the methodology of “entrance fees,” which are a mechanism for the recovery of capital investments.

The Metropolitan Water District (MWD) began in 1895 and represented the “original” communities that fell within a 10-mile radius of the state house, allowing them to join the MWD, as well as a few towns located in close proximity to the original water sources of the system.

Following the MWD was the Metropolitan District Commission (MDC), which helped usher in the Quabbin Reservoir, adding 412 billion gallons of water in 1946. With the new reservoir and infrastructure, the Chicopee Valley communities were added, and the Quabbin Tunnel and Hultman Aqueduct also allowed the MDC to extend its radius to 15 miles, bringing in 15 new communities between 1946 and 1957.

Because of the influx of towns in the extended radius, this was the time in which it became standard practice for new water customers to pay the costs associated with physically connecting to the system. For example, Needham paid the connection costs, such as labor and materials, necessary to bring water from existing MDC communities like Newton into the Town. Connection costs simply ensure that existing communities aren't forced to pay for a new customer's costs, they don't account for the money laid out by existing communities for costly capital improvements so, in the 1960's, the MDC also standardized the practice of allocating a portion of capital costs to new communities: any new water customer that wanted to benefit from the huge capital costs associated with the Quabbin and the Hultman would not only need to pay for their connection costs, but also an entrance fee.

Weston, Wellesley, Woburn, Lynn and Canton, all joined the system between 1963 and 1982, paying entrance fees set forth by the MDC.

In 1985, legislation established the MWRA, which assumed responsibility for the delivery and distribution of water to the 46 communities in the system at that time.

Setting the MWRA apart from the MDC was the ability to sell bonds and raise revenue to make the capital improvements necessary for a more modern waterworks system. Since the MWRA was created, five communities have joined the system, paying entrance fees based on their usage: Bedford (1993), Stoughton (2002), Dedham-Westwood (2005), Reading (2007) and, most recently, Wilmington (2009).

To summarize, the original communities lived through the development of the system and then, with the Quabbin, the MDC allowed new communities to join, as long as they paid to physically connect to the system, while also introducing entrance fees as early as 1946 with Winchester, Cambridge, Needham, Wakefield and Peabody all paying during this period.

Finally, because of growing capital costs, entrance fees became standard practice to cover a new water customer's fair share of those costs.   Most recently, the MWRA has carried on the practice of charging an entrance fee to communities that wish to enter the system as the MWRA has invested hundreds of millions of dollars in updating an aging system to ensure its sustainability.

In regard to the methodology on entrance fees, first, using Quincy as an example, staff will show why entrance fees exist.

The City of Quincy pays water rate assessments to the MWRA every year based on water usage, which covers its portion of the MWRA's budget and capital financing costs.

In the last 15 years, from FY2000 to FY2014, the City of Quincy paid $112 million to the MWRA in water assessments. Capital Financing costs were 52.5% of total water system expenditures during that 15 year period, meaning that the City of Quincy and its residents paid $59 million towards capital improvements to the waterworks system in the past 15 years

With this in mind, entrance fees take into account the capital outlay of MWRA communities by charging a portion of the waterworks system's Net Asset Value, or NAV, to new communities. The NAV is calculated by taking the gross assets, less the debt associated with those assets, which equals $967 million, calculated each year by independent auditors. This is broken down by water usage of each community with 25% of the NAV applied to peak use and 75% to average use. The calculation works as follows: Withdrawals on the most recent 5-year average for the total system are compared to an applicant. As an example, if the applicant uses one million gallons per day (MGD), this new customer's percentage of the total is multiplied by 75% of the NAV, which is $3.6 million. Similarly, the six-month peak for all MWRA customers is compared to the new client and that ratio is multiplied by 25% of the NAV, which is $1.2 million. These two together result in the final entrance fee of $4.8 million for a new customer using 1 MGD.

Entrance Fees today reflect major work done in the past 25 years to make the MWRA Waterworks system one of the best in the country. This work includes the flagship facility, the John J. Carroll Water Treatment Plant, which has treated all of metropolitan Boston's water supply since July 2005. Also of great importance is the MetroWest Tunnel, which provides crucial redundancy to the transmission system and went online in 2003.

Together, these two examples account for over a billion dollars of recent capital spending. Entrance fees are needed to ensure that new communities looking to benefit from these substantial capital investments, and all other capital improvements, pay their fair share of those costs and recognize that over the past 50 years all waterworks customers to join the system have not only paid to physically connect to the system but have also paid an entrance fee toward the capital costs for which existing communities have been paying.

- **Legislation**

Mr. Favaloro stated that he and Mr. Laskey have met with leadership of both the House and Senate. There is a commitment for DSA. Senate Bill 2021 will be debated later in the month of June. The session ends July 30th.

VIII. Approval of the Advisory Board Agenda for May 15, 2014

A motion was made **TO APPROVE THE ADVISORY BOARD AGENDA FOR THE MAY 15, 2014 MEETING.** It was seconded and passed by unanimous vote.

IX. Adjournment

A motion was made **TO ADJOURN THE MEETING AT 10:20 A.M.** It was seconded and passed by unanimous vote.

Respectfully submitted,

William Hadley

William Hadley, Secretary