



Advisory Board Meeting

THURSDAY, MARCH 16, 2017
11:30 AM

SAMUEL HADLEY
PUBLIC SERVICES BUILDING
201 BEDFORD STREET
LEXINGTON, MA 02420

Attendees (Voting Members)

Michael Rademacher	Arlington	Bernie Cooper	Norwood
Jay Marcotte	Belmont	Jeff Zager	Reading
Jay Hersey	Brookline	John DeAmicis	Stoneham
John Sanchez	Burlington	Patrick Fasanello	Walpole
Ralph Pecora	Lexington	Joe Lobao	Wilmington
Amy McHugh	Marblehead	J.R. Greene	Quabbin-Ware Watersheds
Elena Proakis Ellis	Melrose	Barbara Wyatt	Wachusett Watershed
Lou Taverna	Newton		

Other Attendees

John Carroll	MWRA Board of Directors	Tom Durkin	MWRA
Andrew Pappastergion	MWRA Board of Directors	Louise Miller	MWRA
Lexi Dewey	WSCAC	Matt Horan	MWRA
Andreae Downs	WAC	Joe Favaloro	Advisory Board
Fred Laskey	MWRA	Matt Romero	Advisory Board
Mike Hornbrook	MWRA	James Guiod	Advisory Board
Sean Navin	MWRA	Lenna Ostrodka	Advisory Board
Kathy Soni	MWRA	Cornelia Potter	Advisory Board

31 people were in attendance, including 15 voting members.

Thursday, March 16, 2017
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Draft Minutes

A. WELCOME

The Chairman called the meeting to order at 11:39 am.

B. ADVISORY BOARD HEARING ON THE PROPOSED FY18 MWRA CURRENT EXPENSE BUDGET

The Chairman opened the Advisory Board’s hearing on the MWRA’s Proposed FY18 Current Expense Budget. The Advisory Board Secretary read the official notice of the Public Hearing:

“The MWRA Advisory Board will hold a Public Hearing on Thursday, March 16, 2017, at the Samuel Hadley Public Services Building, 201 Bedford Street, Lexington, MA, at 11:30 a.m. on the components of the Massachusetts Water Resources Authority’s proposed \$749.1 million FY18 Current Expense Budget. The Authority must adopt the proposed budget on or before June 30, 2017. The Advisory Board is empowered by statute to make comments and recommendations on the proposed budget. Copies can be examined at the offices of the Authority at 100 First

Avenue in Charlestown. Written comments received at the MWRA Advisory Board, 100 First Avenue, Building 39, 4th Floor, Boston, MA 02129-2043, or via email no later than May 12, 2017, will also be considered.” [This Notice was also published in the Boston Herald on March 2, 2017.]

Because the Advisory Board was scheduled to hear a presentation on the proposed budget as part of the day’s agenda, the hearing was suspended in order for a presentation to be made prior to taking any testimony on the budget. Following the presentation, the hearing was reopened for the purpose of taking that testimony.

C. PRESENTATION: MWRA’S PROPOSED FY18 CURRENT EXPENSE BUDGET

A presentation of the proposed budget by Thomas Durkin, Chief Financial Officer, with Kathy Soni, Budget Director, and Louise Miller, Budget Manager, followed. Also available was a power point presentation highlighting elements of the budget, and a one-page table summarizing the key budget categories, referred to as Attachment A. Mr. Durkin noted that transmittal of the proposed budget to the Advisory Board for its annual review has been approved by the Board of Directors.

Mr. Durkin opened his remarks with the theme that the budget had been developed to manage the uncertainties that the agency currently faces, so while our mission is always to achieve sustainable and predictable rates, managing under these times of uncertainty has been challenging. The goal is to achieve sustainable and predictable rates for the year and several years ahead. The longer term goals are the reduction of outstanding debt, and the reduction of the proportion the debt service to the entire budget, which puts pressure on the direct expense part of the budget. Indirect costs, including pension costs, are more stable categories of expense. So, managing capital financing has the greatest impact of the three categories because of the correlation with the total budget.

Debt remains a glaring uncertainty. For example, the interest rates on the variable portion of the debt may continue to rise. At the same time, there are earnings on investments. Other areas of uncertainty area comprise utilities and chemicals costs, construction costs (including the impact of oil prices of construction-related materials), inflation (including the consumer price index), the potential for tax code changes (which could impact the tax exemption value of municipal bonds), and possible changes in environmental regulations.

Ms. Soni highlighted the relative size of the key categories of the budget: direct expenses make up 32% of the budget, and indirect expenses another 5%. The rest of the budget – 63% -- is assigned to meeting capital financing related expenses. These expenses are highlighted on Attachment A, available to attendees at the meeting.

A significant contributor to new spending (part of the direct expenses) is a placeholder for estimated one-time costs associated with the Harbor Electric Energy Corporation dredging Boston Harbor to ensure protection of the cable that brings electricity to the Deer Island Treatment Plant. Costs include diesel fuel purchases offset by previously planned electricity purchases, labor, and other charges, totaling \$4.4 million in the proposed budget, a significant contributor to the increase in total direct expenses.

Other large categories of direct expense spending include wages and salaries, maintenance, energy and utilities, chemicals, and other services (including the cost of operating the sludge pelletizing plant at Fore River). A number of items will be revisited during the spring prior to bringing the final budget to the Board for approval. Some of these categories include assumptions regarding pricing of diesel fuel, electricity, health insurance, and chemicals.

For indirect expenses, the largest cost category is the Watershed Protection, including payments in lieu of taxes, for a proposed total of \$25.0 million. Other costs in this group include pension, funding for other post-employment benefits, and insurance.

The largest category of the budget is capital financing, with annual repayments continuing to rise until a peak projected for 2022. Staff has been focused on managing this part of the budget. In fact, in FY 2012, the total amount of outstanding debt that had been issued for the Deer Island Treatment Plant, the MetroWest Tunnel, and the Carroll Water Treatment Plant has come down. Even with issuing debt going forward, the amount of debt outstanding is still below the level of 2012, although upcoming debt service payments continue to rise (due to the timing of the repayment of the debt). The Authority is addressing this challenge with defeasance, which involves paying certain principal repayments before they are due. These defeasances are funded, primarily, with budget surplus. This helps to stabilize the budgets and allows for predictable and sustainable rate requirements. Reserves are used sparingly; however, use in the future is projected. The Authority is issuing debt in a tactical way, rather than by spreading equal payments across thirty years. The Authority is also very careful about capital spending and working around the timing of it. Also being utilized is current revenue for the capital program (also referred to as “pay go”), which allows for avoiding some borrowing and the associated interest costs. Staff plan to grow the annual amount budgeted (now at \$13 million) a small amount each year.

The Authority also faces interest rate risk associated with variable rate debt and is trying to keep that debt to about 15% of total debt outstanding. The rest is fixed rate debt. The proportion is consistent with the goal of controlling volatility. The amount and the timing of new bond issuance are timed to avoid borrowing earlier than necessary, given the pace of capital spending. Also factored in are the timing and the amounts available through the State Revolving Fund. Another issue is potential tax code changes, which could devalue the tax exemptions associated with municipal bond earnings.

SIFMA is the index used to measure the Authority’s variable rate debt. Interest rates have been stable and low through the last couple of years. Most recently SIFMA reset at 71 basis points, a recent increase from about 65 basis points. This, combined with interest rate increases announced by the Federal Reserve Board, can be expected to rise even more.

The proposed budget assumes variable rates at 3.50%, a 25 basis point increase from the FY17 budget. A defeasance transaction at \$20 million has been built into the budget, as is a \$10.9 million prepayment of debt. Current Revenue for Capital increases by \$1 million and there is no Debt Service Assistance funding built into the budget assumptions.

Regarding Non-Rate Revenue, Other User Charges are assumed at a level of \$9.0 million. Other Revenue is set at \$7.7 million, and Investment Income is assumed to be \$11.3 million.

In sum, the wholesale Rate Revenue Requirement is proposed to be \$721.2 million, an increase of 3.8%, a level that is projected to hold through FY 2022. The projections also reflect efforts to balance the impact of the wholesale rate requirements between sewer and water utilities. The Authority’s public hearing is scheduled for April 6th. The Board of Directors will discuss proposed revisions to the proposed budget for the final budget at its first June meeting. The Board is scheduled to vote on the final budget at its second meeting in June.

Mr. Hornbrook provided an update of the Harbor Electric Energy Company (HEEC) work on the submerged electric cable to Deer Island, discussing the associated costs of this activity and potential impacts on the proposed FY18 budget. The cable runs from the switchyard in South Boston through the Reserved Channel, and across the main shipping channel to Deer Island. It is the primary source of power to the plant. It is owned, was installed, and is operated and maintained by HEEC (which was a subsidiary of NStar, now Eversource). The MWRA is the only customer. A few years back, a dredging project was approved by the Army Corps of Engineers and MassPort. Dredging is to take place right through the harbor basin and main shipping channel and the Reserved Channel.

In the process of developing the project, it was discovered that the HEEC cable was not at the depth that it was originally permitted to be. It is too shallow, and there is now concern because the dredging is designed to deepen

the channel to accommodate the new generation of cargo ships coming in through the Panama Canal enlargement. Test pits were dug to determine the cable's actual location and depth. The cable lies higher than the record drawings and the permit that the Army Corps of Engineers issued. HEEC has been asked to address this issue and has proposed either a concrete slab (or mat) or a steel slab with articulating concrete armor along the side. This in turn will require dredging along each side of the cable where installed depths are not deep enough.

Initial tests, which involved de-energizing the cable, indicated that one of the CTGs serving as the source of back-up power for the cable could meet most power requirements, with the second CTG serving as back-up power. Since the initial test period, the width of dredging involving the cable doubled to 200 feet wide. Estimates for the dredging "corridor" also lengthened. This in turn lengthened the time period from 3-4 months to 6-8 months. The Corps of Engineers would re-energize the cable if weather conditions made it necessary. It was this set of assumptions that was used to develop the costs that have been included in the proposed budget (\$4.4 million).

They have further developed their schedule and have now told MWRA that there will be potentially a two-to-three year dredging project duration. In turn, dredging would be carried out 24 hours/day, seven days a week. Therefore, more back-up power will be needed to avoid frequent de-energizing and re-energizing the cable. Estimates were recalculated to include more back-up generators (including rental, delivery and operating costs). Most recently, updated estimates put the costs to \$43 million, including updated fuel costs to operate the generators.

Staff have now been directed by the Board of Directors to seek some flexibility in the dredging project schedule that would avoid additional back-up generators. Included would be re-energizing the cable periodically and/or to seek additional federal or state funding for the project, for which cost estimates in just a few days have changed significantly.

Other developing changes include the start of the dredging project, now scheduled for August 1 instead of July 1. Delays would also impact the completion of the project and the ability of the port to begin to take the deeper-draft vessels.

In answer to a question about how this issue became the problem of the MWRA, Mr. Hornbrook stated that providing a source of power was one of the first milestones of the Boston Harbor Project, starting with the construction phase. Even though HEEC owned the cable and installed it, MWRA was on the Army Corps of Engineers permit. Thus, the responsibility for anything that is not in compliance with the permit is the responsibility of the permittee. Even though the Authority paid for the cable, it was HEEC that was responsible for the installation (which did not always meet the conditions of the permit). Furthermore, HEEC was paid a bonus for finishing the project ahead of schedule. HEEC also submitted a set of as-built drawings saying the project was in compliance at the depths that had been required. In addition, it is expected that all ports on the East Coast will pursue even deeper depths, within five to ten years, which would make the current cable protection project obsolete.

With the completion of the presentation on the proposed Current Expense Budget for FY2018, including discussion of uncertainties raised by the changing estimates relating to the planned dredging of Boston Harbor and impacts for the cross-harbor cable, the public hearing portion of the meeting was reconvened. There were no further requests to speak at the hearing or make comments on the budget. The public hearing portion of the Advisory Board meeting was then closed.

D. APPROVAL OF ADVISORY BOARD MEETING MINUTES FOR FEBRUARY 16, 2107

A motion was made and seconded to approve the minutes of the February 16, 2017, meeting of the Advisory Board. The motion passed unopposed.

E. PRESENTATION ON THE STATUS OF THE WASTEWATER METERING PROGRAM: STEVE ESTES-SMARGIASSI, MWRA DIRECTOR OF PLANNING AND SUSTAINABILITY

The Authority has gone out for bid on the replacement program with a revised scope and expects to be addressing the status of the program in more detail at the upcoming meeting of the Operations Committee. Staff anticipate having a consultant on board by later this summer. The Authority's goal is to meter on the order of 85% of the flow, as not everything is metered. One of the big items in the scope is to review all the unmetered areas and update the flow estimates for those. MWRA staff will be working with community representatives. Goal include developing a better standard operating procedure to ensure these estimates stay up to date, determining how the formulas can be updated, and assessing whether it would be worthwhile to add more wastewater meters.

The updated technology for wastewater meters will be assessed, since it has been more than ten years since the meters were replaced, and there have been a lot of changes in measuring flows. The Authority must consider what is the best match for meters and for siting them. Once these steps have been completed, a bid package of meters, meter locations, and the meter installations will be compiled. During the meter installation, a three-year average of data will be used for billing purposes.

The procurement process is underway. The contract is expected to start this summer. The fieldwork will proceed during the selection process. Selecting the meter and beginning installation will occur about a year and a half from now, followed by a one-year installation period. MWRA staff will be working with the Advisory Board regarding logistical issues in each community.

Regarding the annual consumer confidence reports, Mr. Estes-Smargiassi reminded members to submit the community letter to MWRA as soon as possible.

F. COMMITTEE REPORTS
EXECUTIVE COMMITTEE

• **Process and Timeline to Elect an Advisory Board Representative to the MWRA BOD**

Mr. Favaloro opened the report, noting that Advisory Board members to the Board serve for a term of three years. Every year one of the three members to the Board from the Advisory Board goes through the election or re-election process. This year, John Carroll's term expires June 30. He has informed us that he is running again. There is a process leading up to the election in May. The Executive Committee will serve as the nominating committee. Letters of intent from interested candidates and interviews will be discussed at the May meeting of the Executive Committee, followed by an election at the May meeting of the Advisory Board, based on one vote by each community (as compared to all other votes of the Advisory Board which are based on the weighted vote of each community). A quorum of 33 members is needed to ensure a valid election.

• **Legislative Strategy**

Mr. Laskey, MWRA staff, and Mr. Favaloro will be meeting in the coming week with the Speaker of the House regarding the next year's budget and Debt Service Assistance. Staff plans to do the same in the future with the President of the Senate.

• **Primacy**

Last week, the Governor filed the bill regarding DEP primacy. That filing will begin a hearing process in the coming weeks or months. The Advisory Board intends to be an active participant in those conversations. We have long advocated and the communities have long voted in support of DEP as being the primary agent to enforce environmental law.

• **Watershed Protection**

Next week Mr. Taverna will be meeting with the other four members of the Watershed Trust to begin to look at the Watershed budget for FY 2018. It is somewhere in the vicinity of \$25 million and includes funds for capital expenditures and PILOT payments. We are still trying to actively debate the difference between watershed protection and recreation.

FINANCE COMMITTEE

- **Advisory Board Budget Review Preview**

Mr. Romero provided an update of the budget review process. He noted that all the charts and tables prepared for the budget review process are available to the Executive Committee in its Dropbox folder. Comments and recommendations are being drafted, including the policy-related topics. These topics are being developed in the context of a number of challenges and uncertainties that the Authority is facing, including the cross harbor cable, interest rate assumptions, and the subject of primacy and the potential for an updated NPDES permit, which could require increased chemical costs to meet anticipated levels of enterococcus treatment. Another topic involves modifying approaches to procurement, namely the use of qualifications-based selected for design contracts.

OPERATIONS COMMITTEE

- **Operations Committee Meeting**

The next meeting of the Operations Committee will be on Tuesday, March 28 in Burlington. On the agenda are the Wastewater Metering Program, the next phase of the Local Water System Assistance Program, and topics for the second annual MWRA/MWRA AB Lead Forum, planned for April.

G. OTHER ITEMS

There were no other items.

H. ADJOURNMENT

A motion was made to adjourn the meeting at 12:54 PM. It was seconded and passed by unanimous vote.

Respectfully submitted,

Michael W. Rademacher, Secretary