



Advisory Board Meeting

BOSTON WATER AND SEWER
COMMISSION
980 HARRISON AVENUE
BOSTON, MA 02119

THURSDAY, APRIL 19, 2018
11:30 AM

Attendees (Voting Members)

Lou Taverna	Newton	John DeAmicis	Stoneham
Mike Rademacher	Arlington	Brendan O’Regan	Saugus
Bernard Cooper	Norwood	Bob Higgins	Hingham
John Sanchez	Burlington	Joe Lobao	Wilmington
Carol Antonelli	Wakefield	Jeff Zager	Reading
David Manugian	Bedford	Amy McHugh	Marblehead
Irene McSweeny	Boston	John Cosgrove	Needham
Elena Proakis Ellis	Melrose	Yem Lip	Malden
Lou Mammolette	Chelsea	J.R. Greene	Gubernatorial appointee

Other Attendees

Andrew Pappastergion	MWRA Board of Directors	Louise Miller	MWRA staff
John Carroll	MWRA Board of Directors	Matt Horan	MWRA staff
Joe Foti	MWRA Board of Directors	Sean Navin	MWRA staff
Lexi Dewey	WSCAC	Jeff McLaughlin	MWRA staff
Andreae Downs	WAC	Joe Favaloro	MWRA Advisory Board
Eric Sherman	Wakefield	Matt Romero	MWRA Advisory Board
Tom Durkin	MWRA staff	James Guiod	MWRA Advisory Board
Dave Coppes	MWRA staff	Lenna Ostrodka	MWRA Advisory Board
Steve Estes-Smargiassi	MWRA staff	Cornelia Potter	MWRA Advisory Board
Kathy Soni	MWRA staff		

37 people were in attendance, including 18 voting members.

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Draft Minutes

The Chairman welcomed members and guests and called the meeting to order at 11:37 am.

A. APPROVAL OF ADVISORY BOARD MEETING MINUTES FOR MARCH 15, 2018

A motion was made and seconded to approve the minutes of March 15, 2018. The motion carried.

B. PRESENTATION: EMERGING ADVISORY BOARD BUDGET REVIEW COMMENTS

Mr. Favaloro opened the discussion, noting that this time of year is the Advisory Board's opportunity to make comments and recommendations on the Authority's proposed capital and current expense budgets, as provided by the enabling legislation.

He noted that a lot of what the Advisory Board is about is messaging. Four years ago, the Advisory Board set a challenge for the Authority: that challenge was "4 [%], no more." The Authority staff took that concept and "hit a home run," in finding a way to make it work. But, like everything else, we don't live in a static world. Thus, what is the next challenge? We want to work toward that goal. What will be presented today is a dramatic message for FY 2019, and a challenge to the MWRA (and to the Advisory Board, as well, because we do work very closely together) on what the future is going to look like.

Mr. Romero noted that April is usually the time when staff presents a preview of what the Advisory Board Comments and Recommendations are going to look like, first to the Executive Committee and then to the full Advisory Board. This is the last chance to make sure that the review is heading in the right direction – the recommendations for a revised proposed rate increase, and the policy recommendations – and then staff can move forward. The next month is scheduled for a vote by the Advisory Board on the draft Comments and Recommendations. The two words that really characterize the theme of this year's review are "multi-year challenge" on the current expense budget side, and, on the capital budget and five-year capital spending cap side (and beyond), a separate, dramatic challenge is being developed.

On the capital side, the Authority is developing a level of capital spending for the period FY 2019 – 2023. Staff displayed a graph of the three prior capital spending cap periods, FY04-08, 09-13, and 14-18, with cap spending and actual spending for the periods. Also included is the proposed cap level of capital spending for FY19-23 which rises to the \$1.2 billion mark (already reduced somewhat from the \$1.4 billion originally under consideration by the Authority staff at the start of the budget development cycle). The most recent cap (for FY14-18), stood at no higher than \$800 million in response to Advisory Board comments at that time. The Authority has lived within that level of spending.

Focusing on the proposed increase in the next five-year cap from \$800 million to \$1.2 billion, the Executive Committee expressed the need for staff to delve into the details of the proposal – what is in the proposal, why is it at that size, and does staff think the Authority can really spend at that level of funding. The Advisory Board staff is proposing the cap for the FY19-23 period be set at \$950 million. Staff reviewed the largest projects in the proposed capital budget that were \$20 million or above, including asset protection (for Deer Island and other system rehabilitation projects such as the Chelsea Creek Headworks) and interim water redundancy projects that need to be carried out prior to the start of the new water redundancy program scheduled for construction during the next cap period, FY24-28. Also reviewed was revised and increased funding for the expanded I/I community program and borrowing terms. (The program is netted out of the calculation for the five-year cap amount.)

Regarding the review of the proposed Current Expense Budget for FY 2019, staff focused on the rate increase. Staff reviewed the current draft of the one-page summary (referred to as the "Dunphy Sheet") highlighting possible changes drafted by the Advisory Board staff that could be considered to modify the proposed operating budget and associated rate revenue requirement. Changes in such categories of spending as electricity, wages and salaries and related health insurance assumptions, and a number of other key items are under consideration. So far, a preliminary estimate of the rate increase is in the area of 3.07% (as compared to the 3.9% in the proposed Current Expense Budget). More details will be presented in May.

Staff turned to the previous challenges, and the challenges presenting themselves now. Looking a snapshot of the circumstances before the “4[%] no more” challenge from FY14, the rates then were in the high 3% range and 4% and even higher by 2020. Since then, the Authority staff has worked to meet those challenges and has reshaped rates that are projected to remain to within the “4[%] no more” mantra used for the last several years. Where we are now in the current budget projections for FY 2019, are in 3.8% range and, for the next three-four years, it levels off and begins to drop off to lower estimates with negative rate changes by 2024 and 2025.

Some of the possible tools available to the Authority to rework these estimate are: sell more water; regarding capital financing, using longer term debt terms for new borrowings (depending on asset life); use of taxable bonds for certain categories that cannot be funded through tax-exempt bonds; and strategic use of rate stabilization funds.

Staff described efforts to reposition potential strategic use of rate stabilization funds to reshape rate projections in anticipation of the years currently projected to have negative rate changes. This review now suggests a new goal: “2.4[%] by '24.” Thus, rate stabilization funds can support revised rate projection estimates over the next several years, until 2024 when flat rate increases are projected to be achievable. Staff emphasized that this is just an approach to the goal of 2.4%: there are many ways to get to that level, and many tools that can be applied. This is just a challenge for the Authority, using (some, but not all) rate stabilization funds for just the purpose they were created: to stabilize rates. Then, by 2024, any surpluses can be used to restore those funds in 2024, 2025, 2026, 2027 and 2028. The goal is to address how the Advisory Board’s review can be helpful in the short term and also for the long term. These discussions will also be cognizant of the introduction of stormwater fees that some communities are anticipating within just the next two years. In closing, the discussion is how the Advisory Board should be rising to the challenge of modifying and managing rates that are projected over the next several and more years. The challenge is to arrive at the right mix and the right tools to manage rates going forward. The Comments and Recommendations will go into greater detail next month at the May 17 meeting, at which the Advisory Board will vote on the report to be submitted to the MWRA.

It was also noted that the usual meeting schedule for the Board of Directors meetings will change to one meeting at the end of May (on May 30), followed by one meeting on June 20, as compared to having two meetings, as had been the practice, in June.

C. PRESENTATION: COMPONENTS OF THE MWRA’S SEWER RATE METHODOLOGY

Leo Norton, from the MWRA’s Administration and Finance Division, gave a presentation on the components of the sewer rate methodology. (See the Power Point presentation and handouts from the presentation.) The remarks provided a review of how the methodology works. Attendees were also reminded that there is a Green Sheet video explaining the methodology on the Advisory Board’s website. Other handouts provided include: a copy of the presentation; information about the assessments, as proposed, for FY 2019; the year-end water use reports; and the year-end sewer flow reports. He also referenced the availability of materials regarding the water assessment methodology. The methodologies allocate the rate revenue to the communities that receive sewer, and/or water service from the MWRA. The total rate revenue requirement for FY 2019, in the proposed Current Expense Budget, is just over \$745 million. The sewer rate methodology was adopted in 1996.

Updated information is sent out on a monthly basis; it is also posted online. There are a number of water use graphs that show the three-year history for every community. The Authority is also planning on reporting the information online. There is also a wastewater community report; it goes out every two months. The reports are being formatted and will be made available online. Additional information can be obtained at leo.norton@mwra.com.

D. FY19 ADVISORY BOARD OPERATING BUDGET

Mr. Favaloro introduced the preliminary request regarding the proposed operating budget for the Advisory Board for FY 2019. It goes up by a little under 7 %, principally because of increases in the salary line item, based on a desk top audit of two of the staff positions which were significantly under where they should be at this point in the careers of the incumbents. The proposal has been vetted by the Executive Committee over a multi-month period. The changes should put the positions in a better spot moving forward. The draft budget has been provided to all members of the Advisory Board, and to the MWRA staff. Next month, this draft budget will be voted on by the Advisory Board.

E. PROCESS AND TIMELINE TO ELECT AN ADVISORY BOARD REPRESENTATIVE TO THE MWRA BOARD OF DIRECTORS

Mr. Favaloro reported that there was a report on the status of this item at the previous month’s meeting, and notices have been sent out inviting letters of intent from interested parties. The term of the seat is from July 1, 2018, to June 19, 2021. The incumbent, Mr. Pappastergion, has expressed interest in running again for the position, serving for an additional three-year term. Any others interested in participating were invited to also apply. The Executive Committee will serve as the nominating committee. The one change in the previous process is, normally, the vote is held at the May meeting. This year, with the opportunity to have a much larger audience, the Advisory Board will use the occasion of the Climate Change Workshop, which will be designated as both the workshop and as the monthly Advisory Board meeting to hold the vote; that meeting is scheduled for Friday, June 15, at Boston College. Anyone interested or with questions were invited to call the Advisory Board staff. The deadline for a letter of intent and resume is June 4, 2018.

F. UPDATE ON LEGISLATIVE STRATEGY

Mr. Favaloro reported that the FY 2018 legislative process resulted in \$944,000 for Debt Service Assistance for the MWRA. Those funds would be used to offset the FY 2019 assessment. The Governor has included \$500,000 while the House will hold its deliberations soon and has included \$1.1 million in the FY 2019 budget. Shortly thereafter, the Senate will propose its own version of the FY 2019 budget.

In addition, staff is working with House leadership to include, as part of the economic development bill, \$25 million to increase MassWorks grants for pipeline work. In addition, the Infrastructure Committee, which has not met for a year and a half, is now reconvening in the middle of May to talk about strategies moving forward for water and wastewater funding. The need does not get any less.

Mr. Favaloro also reported that the short-term lodging transfer tax for companies such as Airbnb is still alive and the language surrounding it would allow for communities to use a piece of it for water and wastewater projects.

F. UPDATE ON CLIMATE PREPAREDNESS WORKSHOP

Lenna Ostrodka reported that the invitations to the Climate Change Workshop were sent out earlier in the day, and those interested in attending were encouraged to sign up. She reminded members that the Advisory Board website includes a site for the Workshop including speakers and other information. Parking and an itinerary and related information are also included, as well as a program and agenda. She encouraged members to help with outreach to encourage full participation in the event.

G. UPDATE ON APRIL 18 MEETING OF THE MWRA BOARD OF DIRECTORS

Mr. Favaloro reported that at the meeting of the Board of Directors the previous day that the Board had voted to appoint the recommended candidate to head the metropolitan tunnel project. This appointment is consistent with the recommendation by the Advisory Board to adopt a management structure for the project that built on the Program Management Division framework used for the Boston Harbor Project. Mr. Favaloro stated that he hopes to invite the new manager, Kathleen M. Murtagh, to an Advisory Board meeting in the coming months, depending on her schedule.

H. ADJOURNMENT

A motion was made to adjourn the meeting at 12:48 pm. It was seconded and passed by unanimous vote.

Respectfully submitted,

Michael W. Rademacher, Secretary