

MASSACHUSETTS WATER RESOURCES AUTHORITY

Committee of the Whole

Hearings on The Draft Final 2025 Capital Improvement Program And Current Expense Budget

May 22, 2024

A Committee of the Whole meeting was held on May 22, 2024 for the purpose of conducting Hearings on the MWRA Draft Final FY2025 Capital Improvement Program and Current Expense Budget. The meeting was held at MWRA's Administration Facility in Chelsea, and also via remote participation.

Chair Tepper presided from the MWRA Administration Facility. Board Members Flanagan, Peña, Taverna, and Jack Walsh also participated at the Administration Facility. Board Members Foti and Vitale participated remotely. Board Members Pappastergion, Patrick Walsh, White-Hammond and Wolowicz were absent.

MWRA Executive Director Frederick Laskey; General Counsel Carolyn Francisco Murphy; Chief Operating Officer David Coppes; Deputy Chief Operating Officer Rebecca Weidman; Director of Finance Thomas Durkin; Director of Administration Michele Gillen; Special Assistant for Affirmative Action Patterson Riley; Deputy Finance Director/Treasurer Matthew Horan; Budget Director Michael Cole; Asset Management Analyst Michael Curtis; Chief of Staff Katie Ronan; Associate General Counsel Angela Atchue; and, Assistant Secretary Kristin MacDougall participated at MWRA's Administration Facility.

Vandana Rao, EEA and Matt Romero, MWRA Advisory Board ("Advisory Board"), also participated at the Administration Facility.

Chair Tepper called the meeting to order at 1:07pm.

ROLL CALL

MWRA General Counsel Francisco Murphy took roll call of Board Members in attendance and announced that Board Members Foti and Vitale were participating remotely. The Chair announced that the meeting was being held at MWRA's Chelsea Administration Facility and virtually, via a link posted on MWRA's website. She added that the meeting would be recorded, and that the agenda and meeting materials were available on MWRA's website.

ADVISORY BOARD INTEGRATED COMMENTS AND RECOMMENDATIONS ON THE MWRA'S DRAFT FINAL FY2025 CIP AND CEB

Matt Romero, Executive Director of the MWRA Advisory Board ("Advisory Board"), briefly described the Advisory Board's role in the MWRA budgeting process. He then presented integrated comments and recommendations ("C&Rs") on the MWRA's Draft Final FY2025 Current Expense Budget ("CEB") and Capital Improvement Plan ("CIP").

Mr. Romero's presentation began with a discussion of MWRA's proposed FY2025 CEB expenses, which represent a 2.9% total increase from FY2024. He noted that some proposed lump sum line items decreased this year, including chemicals; energy and utilities; and, other services, attributable in part to market corrections and stabilizing inflation.

He then discussed MWRA's rates and revenue. He reported that MWRA proposes a 3.0% combined rate assessment increase for FY2025, and highlighted the difference between the proposed increases for water assessments versus those for sewer services. He explained that MWRA's proposed water and sewer rate increases were historically presented only on a combined basis, and they are now presented on a utility split basis in response to customer community feedback.

Next, Mr. Romero presented the Advisory Board's "Dunphy Sheet," which breaks down factors used to develop the Advisory Board's budget recommendations. He briefly described the reiterative process undertaken by MWRA and the Advisory Board to develop MWRA's budget, including "Spring Revisits" (adjustments made after the transmittal of the proposed budget.)

He then discussed some of the Advisory Board's recommendations for the FY2025 CEB, including an increased vacancy rate for staffing:

Recommendation: Reduce Wages & Salaries by \$3,930,000 by increasing the vacancy rate assumption by 35 FTEs.

Next, Mr. Romero noted that MWRA does not factor fringe benefits into the vacancy rate, and described the reasons for the Advisory Board's recommendation:

Recommendation: Reduce Fringe Benefits by \$1,572,000 to account for the fringe benefits expense that will not be incurred for both the MWRA's 35 FTEs vacancy rate adjustment and the Advisory Board's recommended additional 35 FTE vacancy rate adjustment.

He noted that these recommendations would allow MWRA to reduce its FY2025 sewer assessment increase from 2.49% to 2.19%.

Next, Mr. Romero discussed the Advisory Board's recommendation for FY2025 water rates, in response to feedback from customer communities:

Recommendation: Use \$1.5 million in rate stabilization funds directed toward the water utility's costs to provide some modest rate relief for MWRA communities.

Mr. Romero explained that this recommendation would allow MWRA to reduce its FY2025 water assessment increase from 3.95% to 3.18%. He noted that the Advisory Board CEB recommendations would allow MWRA to reduce its combined water and sewer assessment

increase from 3.02% to 2.53%.

Next, Mr. Romero summarized the Advisory Board's recommendations for the CIP, including the Infiltration/Inflow ("I/I") Local Financial Assistance Program, in response to customer community needs and feedback:

The MWRA Advisory Board recommends that the MWRA approve the following and include projected spending into its final FY25 CIP:

- 1. Phase 15: \$100 million interest-free loan phase (similar to Phase 13) available in FY25.*
- 2. Phase 16: \$125 million grant-loan phase (75% grant, 25% loan) available in FY26 with 10-year loan repayments.*

He then reviewed the Advisory Board's recommendations for the Local Water Supply Assistance Program:

The Advisory Board recommends that the MWRA authorize Phase 4 of the Local Water Supply Assistance Program with the current terms and conditions with a total amount of \$300 million.

Next, Mr. Romero discussed MWRA's Lead Loan Program. He noted that this topic would be discussed in more detail at the MWRA Board of Directors' meeting immediately following the Committee of the Whole, and that the Advisory Board's recommendation reflects its membership's commitment to improving public health and protecting MWRA's drinking water quality:

The MWRA Advisory Board recommends that the MWRA Board of Directors approve the proposed modifications to the LLP and incorporate associated spending into the final FY25 Capital Improvement Program (CIP) with specific program requirements and mechanisms to be determined between MWRA and Advisory Board staff.

Mr. Romero then noted the Advisory Board's concerns about rangers' declining enforcement capabilities at MWRA's water supply watersheds, and discussed the Advisory Board's policy recommendations for MWRA to:

Short-Term Recommendations:

- take action by not allowing weak and limited enforcement to persist;*
- ask DWSP to account for what is happening with the estimated 450-500 annual offenders who would previously have faced stiffer penalties. Question whether appropriate referral to law enforcement is being made;*
- urge DWSP to develop a non-punitive, educational "reminder notice" that*

rangers could provide to serious offenders, identifying them by name and citing the specific violation observed. (This would require restoring rangers' ability to request ID from violators.); and

- request DWSP to revive its suspended ban/suspension system for watershed access, as allowed under existing regulations. (Regional directors should be delegated authority to impose temporary 6-month bans, with the DWSP Director maintaining authority for longer 1-year bans.)

Long-Term Recommendations:

- support legislative or administrative efforts to secure a permanent remedy that restores sensible enforcement abilities for rangers while upholding the spirit of the Police Reform Bill; or
- explore the process of restructuring and training rangers to attain the certification required under the new legislation with DCR providing full transparency on the specific challenges involved.

Mr. Romero noted that after all the information is gathered making thoughtful and fully informed decisions would be possible.

Mr. Romero also presented a summary of the Advisory Board's concerns regarding proposed legislation H.897/S.447, "An Act Relative to the Quabbin Watershed and Regional Equity," including environmental justice, a tax on water supplied; payment in lieu of taxes ("PILOT") payments; and a "held harmless" provision. He described further concerns such as proposals for a tax on land under the reservoirs; changes to the makeup of the MWRA Board of Directors, and the significant expansion of the Quabbin feasibility study. He then presented the Advisory Board's recommendation:

The Advisory Board strongly recommends that the MWRA join the Board of Directors in vigorously opposing the proposed legislation H.897/S.447, "An Act Relative to the Quabbin Watershed and Regional Equity." We further recommend that no funding be allocated for the Quabbin study beyond the existing 12 communities included in the initial proposal.

Next, Mr. Romero discussed watershed forestry. He provided some background on an ongoing moratorium on watershed forestry in Massachusetts as the Healey-Driscoll administration develops guidelines for climate oriented forestry management. He noted the value of responsibly-managed forestry practices for MWRA's watersheds and drinking water quality. He then expressed the Advisory Board's support for a carefully-considered and deliberately limited forestry management program for the DCR/MWRA watersheds, and noted the Advisory Board's recommendations:

Recommendations that MWRA:

- 1. use its role on the Water Supply Protection Trust advocate for continued, carefully considered, deliberately limited active forestry for the watersheds through DWSP's current practice of 1% of watershed forests being harvested in small parcels;*
- 2. advocate for DWSP to demonstrate how its forestry program utilizes current best management practices, including methods to ensure that contracted foresters are conducting their harvests according to the DWSP's specifications and safeguarding soil structure; and*
- 3. request DWSP share its detailed records of forestry activities and present it as a standardized report; provide regular updates to the Water Supply Protection Trust at its quarterly meetings; and highlight their on-going research on forest health and the innovative approaches they are testing to deliberately increase species composition within the watershed forests.*

In closing, Mr. Romero thanked MWRA staff for their cooperation throughout the budget cycle, and for their ongoing support. Finally, he thanked MWRA Executive Director Fred Laskey for his leadership and collaboration.

Hearing no discussion or questions from the Board, Chair Tepper moved to the MWRA presentation. (ref. BH1)

MWRA'S FY2025 DRAFT FINAL BUDGET DEVELOPMENT UPDATE [22:46]

MWRA staff presented its Draft Final Budget for FY2025. Thomas Durkin, MWRA Director of Finance, thanked Mr. Romero for his comments, and briefly reviewed the collaborative and transparent Spring Revisit process. He described some drivers for updates to the budget since the Proposed Budget was transmitted to the Advisory Board in February, 2024, such as changes in inflation, interest rates and pricing.

Next Michael Cole, MWRA Budget Director, presented MWRA's Draft Final FY2025 budget, highlighting notable changes from the Spring Revisit. He discussed budget revisions based on updated assumptions, including direct expenses, such as chemicals; utilities; maintenance; and other services, as well as indirect expenses, such as watershed reimbursement; the Harbor Electric Energy Company cable ("HEEC"); and pension and Other Post-Employment Benefits ("OPEB"). He noted that the Draft Final FY2025 budget includes an increase for OPEB, with a corresponding decrease to the pension budget, due to a new actuarial valuation received in April, 2024.

Matthew Horan, MWRA Deputy Finance Director/Treasurer, then presented some updates to the budgets for debt services, including State Revolving Funding ("SRF"), senior debt and

defeasance. He reported that there were currently some open SRF items, including an \$82 million transaction due to close on May 22, 2024, which will be reflected in the Final FY2025 budget. He added that MWRA received some principal forgiveness loans, which will help offset debt service costs. With regards to senior debt and defeasance, Mr. Horan reported that MWRA launched a bond refunding on April 17, 2024 with a planned June 27 closing. He explained that this refunding is a tender offer, where the holders of bonds that are typically below market value are able to sell them back to MWRA within a two-week timeframe. He explained that a successful refunding will reduce MWRA's interest burden. He added that the refunding also includes candidates who would be considered for defeasance; therefore, staff will wait for the refunding results before proposing a defeasance in June. With respect to revenue, Mr. Horan reported that staff will increase the budget for investment income based on updated assumptions.

Finally, Mr. Durkin discussed the next steps of the budget process, including continued cooperation with the Advisory Board, the development of formal responses to the Advisory Board's comments and recommendations; and, the presentation of the MWRA Draft Final Budget recommendations in June.

Chair Tepper asked Committee Members if they had any questions or comments on the presentations.

Board Member Taverna expressed support for the MWRA Advisory Board's recommendations for watershed protection, ranger citations, the *Quabbin Watershed and Regional Equity* legislation; and watershed forestry.

Board Member Vitale requested the required contribution figures for MWRA's pension and OPEB trust. Mr. Horan explained that the requirements are approximately \$16 million for the pension, and \$5.3 million for OPEB.

Mr. Vitale then asked staff to discuss MWRA's strategy for OPEB and pension funding. Mr. Durkin acknowledged the Advisory Board's recommendation to shift all OPEB funds to the pension. He explained that this recommendation will be reviewed; however, staff prefer to continue commitment to some amount of OPEB funding. He further explained that MWRA's conservative and sensible OPEB funding strategy (50% of the determined contribution) protects MWRA from liability and elicits positive responses from credit rating agencies. He added that MWRA's strategy is intended to insulate MWRA from the high variability of OPEB actuarial valuations. Mr. Durkin then explained that staff recommend that MWRA make additional payments beyond the required pension contributions, for cost savings and to bring the pension closer to its 2030 full funding goal. He stressed that in staff's view, some measure of contribution to OPEB is necessary.

Mr. Vitale agreed that actuarial valuations can be variable, and sometimes based on assumptions. He requested more information about the historical results of MWRA's OPEB and pension funding strategy with regard to actuarial valuations. Mr. Durkin explained that while funding schedules shift, contributions have been consistent over the long-term, driven by the full funding goal date.

Mr. Vitale asked if rating agencies view MWRA negatively because its pension is not yet 100% funded. Mr. Durkin explained that rating agencies regard MWRA's pension to be well-funded, and on the right path toward full funding. He added that rating agencies have expressed no concerns about MWRA's OPEB funding strategy. There was brief, general discussion about OPEB and pension funding at MWRA and the Boston Water and Sewer Commission ("BWSC").

Next, Mr. Vitale asked if MWRA received any feedback on the expected level of participation in the upcoming refunding. Mr. Horan explained that MWRA has approximately \$1.2 billion in candidates available, noting that Barclay, the lead underwriter, estimates a 30% participation level (approximately \$400 million). He added that MWRA had a 17% participation rate in 2023, and explained that staff will scrub the bonds, in particular the tax-exempt bonds, to maximize returns.

Mr. Vitale then asked staff to discuss staff's philosophy with respect to how much outstanding variable rate debt MWRA should carry. Mr. Horan explained that rating agencies generally recommend a variable debt range of 10-15%, noting that MWRA is currently at 9%. He added that given the inversion of the yield rate curve, staff have no current plans to issue variable rate debt; however, staff will continue monitoring market conditions and make adjustments accordingly.

Mr. Taverna asked staff to explain why MWRA issued taxable bonds. Mr. Horan explained that the 2017 Tax Cut Act eliminated the ability to advance refund bonds with tax exempt debt. He added that when rates were low, taxable debt could be issued to refund tax exempt debt for cost savings.

Chair Tepper asked if there was further discussion or questions from the Board. Hearing none, she moved to Adjournment. (ref. BH2)

ADJOURNMENT

A motion was duly made and seconded to adjourn the meeting.

A roll call vote was taken in which the members were recorded as follows:

<u>Yes</u>	<u>No</u>	<u>Abstain</u>
Tepper		
Flanagan		

<u>Yes</u>	<u>No</u>	<u>Abstain</u>
Foti		
Peña		
Taverna		
Vitale		
J. Walsh		

The meeting adjourned at 1:50pm.

LIST OF DOCUMENTS AND EXHIBITS USED

- May 22, 2024 Presentation – MWRA Advisory Board Comments & Recommendations on MWRA’s Proposed FY25 CEB & CIP (ref. BH 1)
- May 22, 2024 Presentation – MWRA Fiscal Year 2025 Current Expense Budget Development Update (ref. BH 2)