Minutes
April 14, 2015

The Wastewater Advisory Committee to the MWRA and Warer Supply Citizens Advisory Committee met at the Waterworks Museum in Chestnut Hill

Attendees/Contributors:

WAC: Stephen Greene (chair), Mary Adelstein, Travis Ahern, , Beth Miller, Martin Pillsbury, Dan Winograd

WSCAC: Terry Connolly, Jerry Eves, Paul Lauenstein

Guests: Karen Golmer (NEWIN), Kathy Soni, Tom Durkin, Wendy Leo (MWRA), Jim Pappas, Julie Wood (CRWA), Adrianna Cillo (BWSC)

Staff: Andreae Downs (WAC), Lexi Dewey (WSCAC)

FUTURE MEETING DATES/TOPICS

NEXT: **May 1** Tour of the **Clinton Wastewater Treatment Plant**, Bob Gorham, director, MWRA

VOTE: March. 6 minutes approved.

ADVISORY BOARD REPORTS

Travis: Thursday's meeting will focus on municipal bonds, federal grants and legislation, in part because a member community heard that municipal bonds might no longer be tax-deductible.

As far as molybdenum, the Governor's new executive order could be used to re-look at the DEP's limits in biosolids.

EXECUTIVE DIRECTOR'S REPORTS

Andreae noted that the next WAC meeting would be in Clinton. Directions distributed both in-hand and by email. Dress code is close-toed shoes and with weather in mind, as the plant is mostly open-air. Andreae will pick up anyone interested in carpooling at the Riverside T Station.

Wendy noted that Clinton is more of a normal-sized plant, and easier to see the process than at Deer Island.

PRESENTATION

Tom Durkin, MWRA director of finance:
In FY16, MWRA hits several milestones:

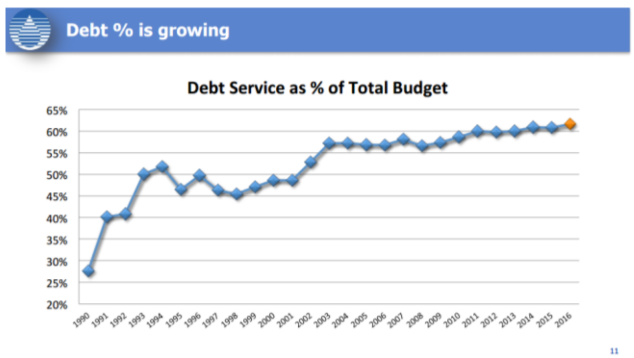
- the bond rules allow reserve releases
- the pension is mostly funded
- MWRA starts to fund retiree health (OPEB)

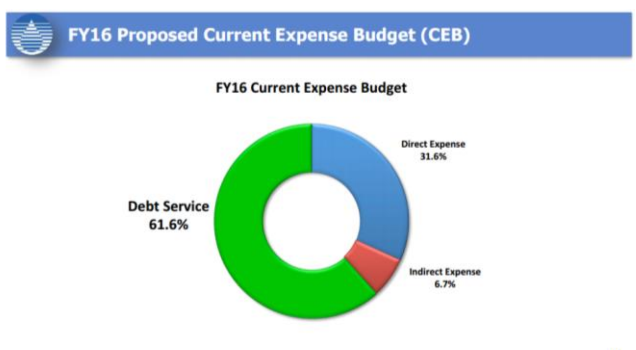
- MWRA's largest contract, with NEFCo, is renewed for 5 years, at a $1.25m savings annually. (NEFCo accepted 92.5 tons of residuals as a base amount for the same price as the current 90 tons)

The Authority is working to keep assessments "sustainable and predictable," and preferably under 4% per annum. Because of the reserve release and its application to defease debt, the biggest driver of MWRA current expense budget, that should be doable until 2020.

Debt service increases were structured to take advantage of promised state debt service assistance, which was cut several budgets ago, and last year was cut altogether as the state faced a budget deficit. But the bills for Deer Island are now coming due, and MWRA's challenge is to manage the growth of the annual debt service increases.

In FY2013, MWRA started paying back more than it was borrowing, about $6 billion total. BUT debt service as a share of the current budget is growing. This year it will be 61%.

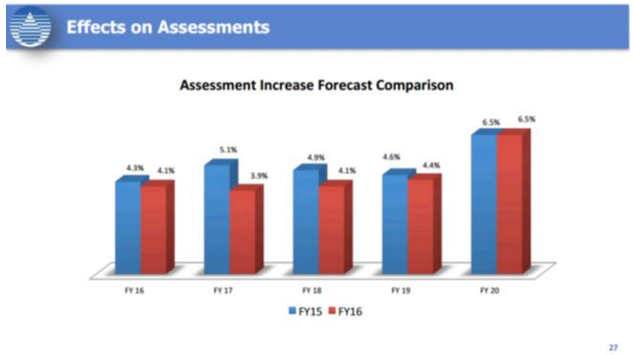




Kathy Soni, MWRA budget manager **Current Expense Budget**

Staff have addressed the challenge of mounting debt service costs in a number of ways, most importantly with defeasance, which is taking budget surpluses and using them to pay down debt when it matures. Because the debt service spikes in some years, those years become the targets of defeasance.

The release of reserves will allow MWRA to further lower debt service payments in years with larger spikes.



The major portion of the direct expenses is wages and benefits, but over time these have been offset by a lowered head count and lower energy costs because of MWRA's investment in renewable energy. They are increasing this year by a little more than 2% over last year.

Indirect expenses grew this year only by a half a percent. One reason for that is that the cable supplying electricity to Deer Island is paid for.

In Debt Service, you can see the makeup of the debt. Senior debt is up, but subordinate debt is lower.

We assume borrowing at 3.25% for variable rate bonds, but since we have been able to get short-term loans at less than that, we put the difference into defeasance. But as interest rates may rise, we may have less of a surplus.

MWRA assumes inflation of about 2.5%, capping capital expenses.

Questions:

Molybdenum in the biosolids—how does that affect the current budget?

It's hard to quantify, because MWRA doesn't sell the product.

Wendy: but it looks better if the pellets can be placed within the state

Travis: MWRA did queston NEFCo, and they said if the limit were raised, within a year, instead of 4% of all pellets going to Western MA, it would be a quarter of all pellets. There's also possible competition to NEFCo coming in. And if all the pellets can be placed in state, it does make the contract more competitive.

Mary: if the limit were raised in June, could the pellets in December be take in-state?

Travis: it's a longer process than that, and unlikely that the limits will be raised that quickly.

Paul: Is the value of the renewable energy reflected in the current budget?

Kathy: Yes. It's energy that we don't have to purchase.

Capital Improvement Budget

The capital budget actual spending for the last few years has been about $162 million. As of last year, it is averaging less than $155 million

Where will those funds go? Water works will take about 30%, the CSO program about 10%, wastewater about 53%

The biggest items are on Deer Island, at $45 million—that's the north pump station and valve replacement and other large projects.

On the water side, looking at redundancy. Spot Pond will be a little delayed because of the snow.

The Clinton plant, which you will tour, will be one of the bigger projects.

Future projects include the Chelsea headworks, redundancy for water supply. If we do switch the combined heat and power, it could largely enhance our electricity generation capability.

Julie Wood: When you look long term is the percentage of debt growing from 61%?

Kathy: 61% is the ceiling, at about $800m. It will decline for the next 20 years or so, but when we add redundancy, it will add debt.

Tom: We all dream of paying-as-we-go: paying cash for the car or the house. But for MWRA to turn from $10m cash and $140 m debt to the opposite, I can't see that in my lifetime. We can move the needle a little. The issue is to find the balance. 61% is too high. I would like to spend less from borrowing. I don't know when that will occur. Focus is on controlling the debt.

Mary: the alternative is to undercapitalize, such as the MBTA. Better to be protecting those assets.

Tom: To issue bonds, one of the administrative things we have to do is have an outside consultant assess our facilities every three years. He opines as to the condition of our facilities. That becomes part of our prospectus. If those facilities are marginal, then investors won't buy our bonds.

Mary: Are the bond prospectuses online?

Tom: They are, yes. The assessment, which is 30 pp is part of it. It's a very good read.

(http://www.mwra.state.ma.us/finance/documents/bondofficialstatement/2014/OS_MWRA_2014D-F%20Official%20Statement.pdf – start on page 132)

Stephen: My question returns to wages & salaries. You are working to keep high quality staff necessary to keep your quality assets? I see wages and salaries do increase and there's a decent amount set aside for training. We have always pushed maintenance here, but the second part is keeping the staff quality.

Kathy: Succession planning is part of what we are doing. Average age is now 52.

Overtime—higher than last year. Why?

Kathy: The valve replacement project will require 62 shut downs. But it is a blip this year.

What's the interest rate on MWRA bonds?

Tom: interest rates rise as time goes on, and bonds are cashed in at different times. We calculate an "All-in TIC (total interest cost)" Our average life of an MWRA is 16 years on a 30 year bond. Currently, the TIC is 3.41%. Because we are low-risk, we pay less. We are a better risk than most revenue bonds, because we provide an essential service.