



Joint WAC/WSCAC Meeting

April 12, 2016 - 10:30 A.M.

Location: The Waterworks Museum
2450 Beacon Street, Chestnut Hill

Members in Bold in Attendance:

Whitney Beals, WSCAC Chair, NE Forestry
Elie Saroufim, Boston Water & Sewer
Martha Morgan, Nashua River Watershed
Paul Lauenstein, NepRWA
Kurt Tramosch, Wayland Wells
Terry Connolly, Town of Ware & Trout Unlimited

Andrea Donlon, CRWC
Gerald Eves, Trout Unlimited
Michael Baram, BU & CLF
Bill Fadden, OARS
Martin Pillsbury, MAPC

Non -Members in Attendance:

Lexi Dewey, WSCAC staff
Taber Keally, WAC Chair
Mary Adelstein, WAC
Zhanna Davidovitz, WAC
Wayne Chouinard, WAC
David Wu, MWRA
Michael Hornbrook, MWRA
Tom Durkin, MWRA
Adriana Cillo, BWSC
Susan King, MassDEP
Andy Fisk, CRWC

Andreae Downs, WAC staff
Craig Allen, WAC
Karen Golmer, WAC
Dan Winograd, WAC
Katie Ronan, MWRA
Wendy Leo, MWRA
Kathy Soni, MWRA
Pete Leixto, Arlington
Nancy Hammett, MA Rivers
Doug Fine, MassDEP

WAC/WSCAC Business

Members and guests introduced themselves for the purposes of the recording. Elie Saroufim announced that Adriana Cillo would be taking his place on WAC and WSCAC.

The WSCAC March Meeting Summary was approved.

MWRA FY17 Proposed Capital Improvement Budget

Thomas Durkin, MWRA Director of Finance, began his presentation of the FY17 Proposed CIP by discussing the annual comment and approval process. The process, Tom said, is continuous in that the proposal is revised and updated as the fiscal year progresses and more information becomes available. The MWRA Advisory Board reviews and comments on the proposal; staff then incorporates those comments into their final recommendation for the Board of Directors. Once the final proposal is submitted, the Board of Directors votes on the proposal in late June. Today, in April, Tom said he

intends to give the committees a sense of where the proposal is in the process. He explained that he and Kathy Soni, MWRA Budget Director, would present the information jointly.

Kathy discussed the importance of asset protection and long-term redundancy initiatives. The water system constitutes a large part of redundancy initiatives; Kathy explained that there are certain points of criticality that must be addressed. The MWRA continues to review these numbers, and has certainly turned a corner. Currently, the MWRA still has 5.4 billion dollars in outstanding debt; Kathy considers this to be the biggest liability overall. She recalled that the Advisory Board made a recommendation in 2003 to introduce a process referred to as a five-year cap – the cap limits the amount of funds that can be spent from the capital budget within that timeframe. The process has proven to be successful and the FY17 Proposed CIP meets the overall five-year spending cap requirement.

Kathy then outlined the major points of influence on the FY17 Proposed CIP:

- City Tunnel Redundancy Project
 - Timing decisions impact the budget
 - The project may take 15-17 years
- Acceleration of existing pipeline projects
- Acceleration of Shaft 12, Shaft 2, and the Winsor Power Station

Tom then explained that a great deal of the MWRA's capital spending is financed through the issuance of tax-exempt debt. The MWRA issues bonds. With nearly 6 billion dollars of outstanding debt, the MWRA must make a sophisticated effort; the treasury department makes a significant effort and focuses on paying more principal than interest. As a result, the debt is amortizing. Even as the MWRA is spending, and necessarily borrowing, the debt level is decreasing. The department is also making a strong and effective effort to layer out debt in a way that is consistent with generational equity. Tom used the City Tunnel Redundancy Project as an example – his children/grandchildren will benefit from the project (a long-term asset) and will therefore assume some responsibility for repaying the debt incurred by the project. The MWRA works to match the amortization of debt with the life of assets.

Kathy then compared the FY14-FY18 base-line cap with FY17 proposed spending. The FY14-FY18 base-line cap total is \$791.7 million whereas the FY17 proposed FY14-FY18 spending is \$648.0 million. The difference amounts to \$143.7 million dollars. Kathy noted that the Advisory Board recommended that community-managed projects should be excluded from the cap – specifically the I/I Program and the Water Loan Program.

Kathy explained that the top spenders account for 54% of FY17 planned spending. Total projected spending for FY17 is \$160.1 million. The Big Spenders of FY17 are as follows:

- Community Financial Assistance Programs
- Section 89/29 Redundancy
- Chelsea Creek Upgrade Construction
- Wachusett Aqueduct PS Construction
- Alewife Brook PS Construction
- NMPS & WFT Butterfly Valve Replacement

Kathy discussed the major initiatives of the FY17 CIP Proposed Expenditures. She explained that asset protection and redundancy are the principle driving forces behind future capital expenditures. Tom noted the significance of this turning point in MWRA's trajectory as a utility. After 30 years, a different financial strategy must be employed. Tom discussed the concept of an asset protection module in which projects and initiatives are financed more with equity dollars than debt dollars. Operating with more equity in the finances is less expensive and provides for more flexibility. He emphasized the importance of acknowledging the significance of financial strategy.

Kathy then outlined the next steps:

- Additional presentations to the Board of Directors on redundancy options
- Work with the MWRA Advisory Board
- Affordability
- Reach a decision by June 2016

MWRA FY17 Proposed Current Expense Budget

Tom explained that the general mission in finance has been "sustainability and predictability." Moving forward, Tom said that the MWRA will continue to deliver on that mission while managing long-term goals, such as financing redundancy and providing water to rate-payers long into the future. Tom said they are also taking on a new goal: to address the smoothing of assessments at the utility level. Cities and towns are looking to set water and sewer rates, so Tom would like to be able to identify and minimize the volatility in rates at the specific utility level. He believes smoothing the increase of the rate over the years will be helpful to the communities and ultimately, the ratepayers.

Tom then addressed challenges that will continue into FY17:

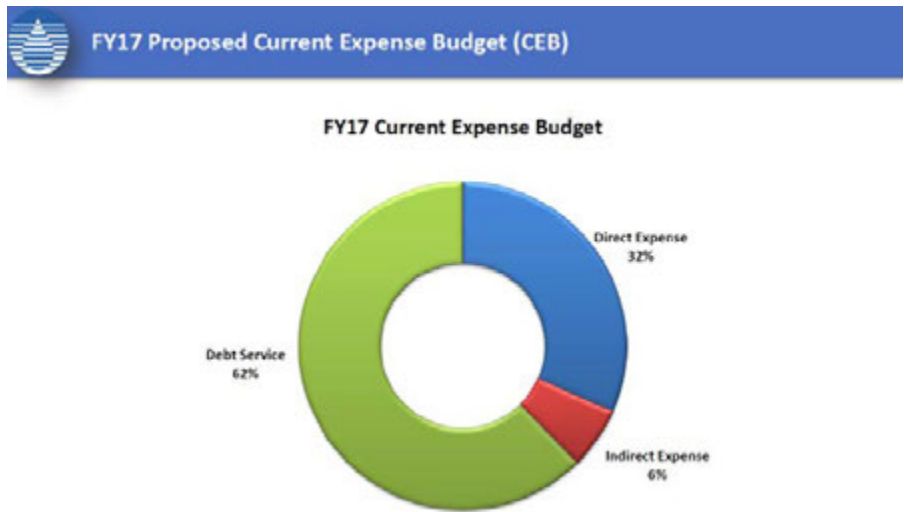
- Manage debt
 - Budget savings
 - Refunding/refinancing options
- Continue to address major liabilities
- Changing market conditions (i.e. fuel costs)
- Controlling expenses
- System expansion

Tom then addressed MWRA's outstanding debt history. He explained that it peaked in 2012 and is continuing to come down. He referenced his earlier discussion of MWRA's turning point: MWRA has transitioned from a large problem-solving/investment agency into an agency that must operate in a long-term sustainable way. Tom then discussed debt service as a percentage of the total budget. As a percentage, it is growing and will peak in 2022. Currently, debt service constitutes sixty-one percent of the total expense budget.

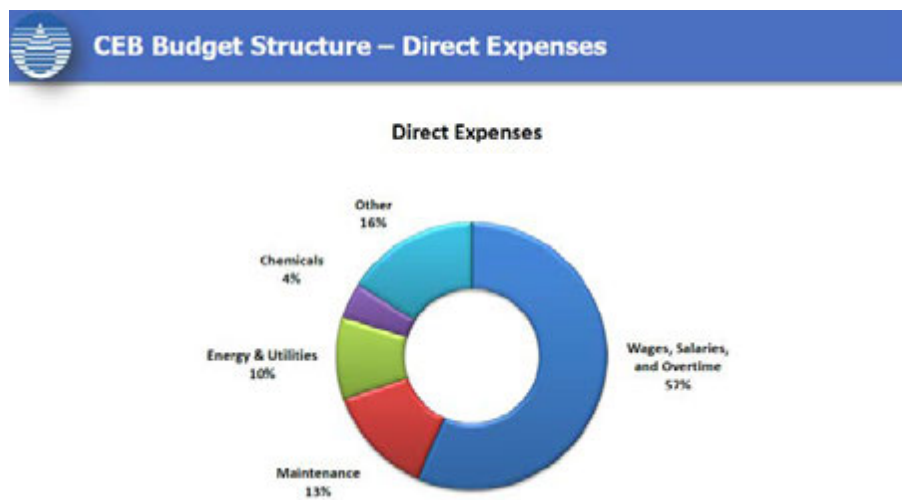
Tom outlined the ways the finance department addresses debt service:

- Defeasance
- Use of Reserves
 - Rate Stabilization Fund
 - Bond Redemption Fund
- Tactical Issuance – Repayment Structure
- Control Capital Spending
- Strategic use of Current Revenue/Capital funding

Kathy continued the discussion by identifying the three major components of the FY17 Proposed CEB:

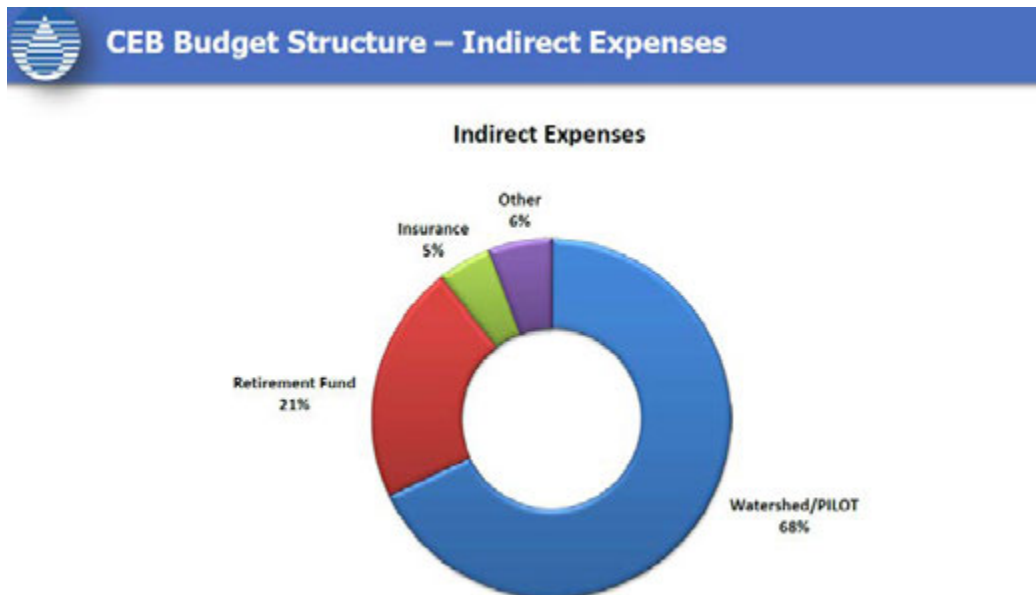


Kathy compared the FY16 CEB with the FY17 Proposed CEB (pictured below). The categories of wages and maintenance have increased. Other Services are basically level funded to FY16.



Kathy outlined the indirect expenses category (pictured below). The Watershed Program/PILOT allocation has increased in comparison to the FY16 CEB. Kathy explained that the MWRA is working

with DCR's Division of Water Supply Protection to discuss projects that need funding such as repairs and upgrades to the Quabbin Administration Building. The funding will not be at the detriment of metro rate payers, Kathy said. She then highlighted the success of the pension fund, as it is nearly completely funded.



Tom then outlined the next steps for the FY17 Proposed CEB:

- Transmit Proposed Budget to the Advisory Board for 60 day review
- Reconvene Long-Term Rates Management Committee
- Public Hearings
- Staff will present Draft Final Budget at the June 8th Board meeting

Mary Adelstein asked if the MWRA has been affected by the federal government's raise in interest rates and what does Tom anticipate in his planning for subsequent raises. Tom said yes, the MWRA is affected. It is very difficult for the Authority to predict where their municipal tax exempt interest rates are going to be by listening to what's going on with the federal government – they operate in a similar, but starkly different market. The MWRA listens with both ears, but it has been difficult to predict because of volatility.

MassDEP proposal for delegation of the NPDES Program

Doug Fine of MassDEP explained that under the Clean Water Act, EPA or the states manage the NPDES Program. There are four states in the U.S. that use EPA to implement the Clean Water Act. Massachusetts is one of these states. Per a legislative mandate, the Commonwealth completed a report on pursuing NPDES authority in 2013 and again with more detail in 2015. Doug discussed the process of pursuing NPDES delegation and stated that it consists of a six component application process.

The components are:

- A letter from the governor expressing interest in the program

- A robust program description
- A memorandum of agreement between the EPA and the Commonwealth
- A statement from the Attorney General that the laws of the Commonwealth are adequate
- Submission of regulations needed to implement the program
- A continuing plan and process document

Doug discussed the interests and concerns of various stakeholders and environmental advocates. MassDEP believes that pursuing the program is a positive idea and that there are a number of benefits in doing so. The Commonwealth, however, has not made a formal decision to pursue delegation. Doug believes MassDEP has a strong track record of implementing robust federal delegation programs such as the Clean Air Act Program and the Clean Drinking Water Program. The agency believes that through delegation they can make significant improvements to their science programs, such as Surface Water Quality Monitoring. Doug stated that the resources that come with delegation would benefit and strengthen MassDEP's permitting process and monitoring program. A component of that he explained, is making better use of third party data.

Doug stated that another benefit of obtaining delegation would be the ability of MassDEP to build on integrated planning at the watershed level. MassDEP believes that EPA is currently limited in their ability to incorporate other water resource related commitments and requirements in the NPDES permitting context. Stakeholders have an interest in looking more holistically at all the water programs, and MassDEP believes delegation could facilitate such integrated programming. The agency thinks they can improve on the information backlog faced by the EPA as well as the appeals process.

Doug then stated that MassDEP is projecting that the annual cost of a robust NPDES program will be 7.5 million dollars. A primary piece of that would be additional employees to implement the program. Doug expressed that the funding mechanism behind delegation is an extremely important topic. Without a clear pathway to adequate funding, the program will not get off of the ground. The funding mechanism is still under internal discussion. The department initially floated the idea of a wastewater assessment fee; the estimate is a fee of \$0.00002 per gallon of flow per day. That averages to be a little less than \$1.65 for an average household of four per year. Stakeholder groups have commented on the idea as far as feasibility and fairness; MassDEP is taking that input and doing additional analysis.

Susan King of MassDEP added that they have had initial conversations with EPA and the agency has been supportive and is willing to work with the agency on NPDES delegation.

Michael Hornbrook, Chief Operating Office of MWRA, explained that the MWRA Board of Directors has not taken a vote on delegation. He outlined his perspective for the committees:

- MassDEP has a strong track record of running effective delegated programs
- Even with budget cuts, MassDEP staff interact with MWRA more than EPA staff
- As a regulatory agency, MassDEP is highly aware of MWRA operations
- There is currently an overlap between MassDEP and EPA – MassDEP could gain efficiency by assuming primacy and move forward with collective solutions

Mike said he personally supports delegation because the EPA has never taken the initiative to bring all of the stakeholders together and ask for their opinions – MassDEP has. The stakeholders are a very diverse group with diverse interests and opinions. MassDEP repeatedly hosts listening sessions and

welcomes stakeholder input. The inclusive approach of MassDEP leads to shorter processes and shorter appeals.

Mike shared the position held by environmental advocates: adequate resources are required to effectively implement the delegation program. Mike discussed the equitableness of assessing the fees that may fund the program. There are a lot of different contributors to the degradation of water quality in the Commonwealth and POTWs (Publicly Owned Treatment Works) assessment formula seemed to be heavy on POTWs – there are a number of contributions made based on stormwater runoff. MWRA has no stormwater responsibility, yet they would be paying a significant portion of the costs associated with running the stormwater program. Additionally Mike said, not all POTWs' NPDES permits are on a level playing field. The MWRA's NPDES permit has a very extensive receiving water quality monitoring program. The Authority spends nearly three million dollars a year on receiving water quality monitoring science and reports. He asked, under this new assessment, how will this be taken into account? Will this become a MassDEP program? Or will the MWRA continue to spend three million a year on harbor monitoring as well as pay a portion of the cost of running other programs throughout the Commonwealth? Mike thinks that these issues surrounding equitableness can be resolved. He believes that MassDEP is willing to work with the stakeholders to resolve these issues and move forward with the program.

Andy Fisk, Executive Director of the Connecticut River Watershed Council (CRWC), then shared how the CRWC is thinking about delegation. Andy explained that there is a deep technical and credible bench at MassDEP, but funding has eviscerated many of their programs – they are hampered in their ability to steward the Commonwealth's water resources.

When considering delegation he said, don't think of permitting first – think instead of a Clean Drinking Water Act Program in Massachusetts in its totality. CRWC thinks of the Clean Water Act Program as a ratchet – the ratchet can only turn one way to increase environmental quality. The ratchet has several pieces. First, the public sets goals and aspirations for our water. A Clean Water Act Program then sets criteria and standards. It then issues permits to dischargers based on those criteria and standards. Then it monitors through compliance and enforcement. Monitoring and assessments are extremely important because we must ask if we are meeting our goals for our water. Once the ratchet completes its upward action, the law requires that it must not go backwards. The MassDEP must think of every piece of this process when considering delegation.

Andy said the CRWC agrees the delegation conversation is an important conversation to have. The CRWC does not believe that the MassDEP has crafted a compelling enough vision at this point. He believes they are partway through the process. From a watershed organization's perspective, the CRWC is not convinced that MassDEP has defined success for the delegation program. How will MassDEP prove that permitting will not occupy the entirety of the program? The CRWC does not believe the agency is at the point that it needs to be in order to assume delegation.

Andreae Downs highlighted the ability of the MWRA to raise the revenue necessary to cover the cost of running water quality programs. One of the things Andreae heard from Commissioner Suuberg at the MA Rivers Alliance meeting was that the money needs to be there. One of the things she didn't hear was how that would in happen in a way that MassDEP has the benefit of controlling the process of raising the necessary funds.

Doug stated that he believes Commissioner Suuberg and MassDEP would agree that the funding needs to be there. He continued to state the discussions are still in process. There has been some push for funds from the General Fund, but experience has proven that the General Fund is not always a reliable long-term source. MassDEP will continue to weigh the options and take into account external stakeholder input.

Andreae asked how does the assessment fee work on the water side and how does that impact MassDEP's ability to run the Safe Drinking Water Act (SDWA) Program. Doug explained that it is a per gallon fee that is assessed and paid by Public Water Suppliers on an annual basis. MassDEP administers the program and there is oversight by an external stakeholder advisory group that makes recommendations to the Commissioner about rate setting. That fund has had its limitations.

Lexi Dewey discussed the Safe Drinking Water Act Assessment Program's Annual Report to the legislature for January – December of 2014. The report indicated that public water suppliers pay an assessment of \$8.50 per million gallons of water used. The minimum bill is set at \$20.00 and fifty percent of 1,735 public water suppliers in Massachusetts pay the minimum bill. At the end of the report, it is noted that ten years ago, there were 104 drinking water staff and today there is fewer than 54. The committee is asking the legislature to fully appropriate into the MassDEP budget all assessment revenue to maintain primacy and increase staffing for the drinking water program. Andreae surmised that not all of the assessment fees are going directly to the MassDEP budget.

Bill Fadden asked Doug how long of a startup period he expects to have and how will it be funded. Doug said that it has not been fully scoped out. Once the application is approved, a timeline will be issued. In other states, it has been a three to five year phase-in period. Susan explained the process of working with EPA throughout the transition. Doug said there would be close oversight.

Michael Baram said he is concerned about enforcement and asked what MassDEP could predict about enforcement under the new regime.

Doug replied that under the delegation requirement, MassDEP would be required to implement an enforcement program that follows EPA's guidance. EPA would also periodically audit MassDEP's program. MassDEP has a strong enforcement record and has more tools available than EPA. MassDEP would work with EPA to determine which tools would work best; he added that they also have the Attorney General as an enforcement tool.

Adriana Cillo commented that there needs to be a large education component given that the public knows very little about stormwater. Unless the public understands the necessity of the program, they will not support funding for the program. Doug agreed that this needs to happen. He expressed an interest in partnering with other organizations to increase public awareness.

Paul Lauenstein stated that his interest is in protecting the environment. He said he is mindful that the EPA and the MassDEP are under siege as far as adequate funding. He related this to the fact that the public generally does not understand what is at stake – all they can see is the cost. Based on his experience with SWMI, Paul commented that he is skeptical of this process and questions if the program put forth by either EPA or MassDEP will be protective enough of the environment.

Committee members thanked Doug, Susan, Mike, and Andy. The meeting was adjourned.