



WSCAC Meeting

Location: Waterworks Museum
Chestnut Hill, MA
April 24, 2018 – 10:30 A.M.

MEMBERS IN BOLD IN ATTENDANCE:

Michael Baram, Town of Belmont, Chair
Whitney Beals, NE Forestry Foundation
Terry Connolly, Town of Ware
William Copithorne, Town of Arlington
Andrea Donlon, CT River Conservancy
Gerald Eves, PV Trout Unlimited
Bill Fadden, OARS
William Kiley, BWSC

Paul Lauenstein, NepRWA
Jean McCluskey, Mission-Focused Alliance
Martha Morgan, Nashua River Watershed
Martin Pillsbury, MAPC
Janet Rothrock, League of Women Voters
Kurt Trampusch, Wayland Wells
Roger Wrubel, WSCAC
James Guiod, Advisory Board

Non-Members in Attendance:

Lexi Dewey, WSCAC staff
Andreae Downs, WAC staff
Wendy Leo, MWRA
Kathy Soni, MWRA

Joseph Szafarowicz, Arlington
George Atallah, Triumvirate
Lou Taverna, City of Newton/Advisory Board Chair
Joseph Favaloro, MWRA Advisory Board Exec. Director

Craig Allen, WAC Chair
James Guiod, WAC/AB
Mary Adelstein, WAC
Adrianna Cillo, WAC/BWSC

Stephen Greene, WAC
Philip Ashcroft, WAC
Taber Keally, WAC

WSCAC BUSINESS AND UPDATES

Members voted unanimously to approve the April 10th Meeting Summary.

**FY19 CAPITAL IMPROVEMENT BUDGET AND CAPITAL EXPENSE BUDGET
KATHY SONI, MWRA BUDGET DIRECTOR**

Kathy Soni, the MWRA Budget Director, began by providing a brief overview of the proposed budget process and timeline. She then transitioned to a discussion of the proposed FY19 Capital Improvement Budget (CIP). Kathy noted that total CIP spending since 1986 has been \$8.2 billion; future CIP spending is at \$3.3 billion from FY18 to FY46. Kathy then provided an overview of the FY19-23 Proposed Cap. Kathy explained that because the CSO Program is winding down—data analysis remains to be done—the focus is really on asset protection and water redundancy.

Kathy recounted the significant water redundancy contracts for FY19-FY23. She discussed, for instance, the Southern Extra High Redundancy and the Northern Intermediate High Redundancy. Kathy then recounted the asset protection projects and reviewed the cost of each.

Kathy discussed the top spending contracts for FY19. Construction for the Chelsea Creek Headworks Upgrade is projected to cost the most, at \$25.8 million. Lead Service Line Replacement Loans are projected to cost \$5.0 million.

She then discussed the Current Expense Budget. The goal, as always, is to deliver sustainable and predictable assessments. She recounted the ways in which the Authority addresses debt service, such as defeasance, refundings, and use of reserves.

Kathy provided an overview of the Authority's long-term liabilities, and discussed the actual and forecasted rate revenue changes. The projected rate revenue change for FY19 is 3.9%.

Kathy highlighted the proposed direct expenses and compared them to FY18 actuals. Wages and salaries, for instance, will see a 2.7% increase. Fringe benefits will see a 3.7% increase. Kathy also discussed the indirect expenses. Watershed Program Operating costs and PILOT payments will see a 3% increase; insurance and mitigation will be level funded.

Kathy concluded her presentation by summarizing the process to come. The Advisory Board review will continue for sixty days; a public hearing will then take place, followed by the MWRA Board Hearing. Staff will present the final draft budget to the Board of Directors in May.

Paul Lauenstein thanked Kathy for her presentation. He asked if she could comment further on the impact of rate increases on the financial status of the system. Kathy stated that if the variable rate increases, that margin, will shrink; thus, the MWRA must be conscientious of that in light of future defeasance opportunities.

A WAC member posed a general question about the way in which the system is setup. He stated that he understands it would be advisable for a town to fix leaks—because they're paying for that water—but why is it in the interest of the MWRA to fix the leaks? Another WAC member commented that it is generally cheaper to let the water run to waste, but it becomes a question of capital improvement and additional resources. If you do not fix the leaks, the amount of lost water continues to increase, and then the MWRA would be required to find new sources/build new reservoirs.

Committee members thanked Kathy for her presentation.

PROPOSED FY19 BUDGET COMMENTS AND RECOMMENDATIONS PREVIEW
JOSEPH FAVALORO, MWRA ADVISORY BOARD

Joe Favaloro, Executive Director of the MWRA Advisory Board, introduced himself and explained the statutory purpose of the Advisory Board. Ultimately, the intent is to provide the MWRA with recommendations that benefit communities. Joe expressed that he has participated in the MWRA budget process for thirty years and reflected on the evolution of budget review—a statutory requirement.

Historically, the budget review was an attempt to find the sweet spot between what to cut and what to keep in; budget numbers originated at four hundred plus million dollars per year in capital expenditures. In order to drive that forward, the increases on the revenue side were double-digit rate increases every year. Communities were trying to keep up with all the work being done. The Advisory Board, in meeting its statutory obligation, would have two documents: the capital budget comments and the current expense budget comments and they were incredibly detailed. The Advisory Board would look at every line item in every division and make recommendations such as, "cut one thousand dollars," or "cut five hundred dollars." The goal was to drill the numbers down as far as they could go.

Overtime, Joe explained, the Advisory Board sought to take more of a global perspective in its review. He discussed the year in which the Advisory Board advocated for the CIP Cap. He stated that the review became a combined approach—the Advisory Board looked at overall need. The question is no longer how many dollars are specifically needed in any one division, but what is the overall need of the MWRA and how can debt be whittled down. Joe explained that the Advisory Board's relationship with the MWRA allows for a back and

forth. He then recounted implementing the position that rate increases would not be more than four percent in a year (“four no more”). This position was initially applied only on the water side, but the Advisory Board kept pushing and secured the position for the wastewater side. He surmised that that is the role of the Advisory Board—to be constructive in nature and to see how far they can push in order to find the sweet spot.

The new approach the Advisory Board has put out on the table is “2.4 by 24.” The Advisory Board also advocates for what they call, “save it forward.” The MWRA—through use of defeasance and other funds—can in fact push the savings that are projected for FY23, FY24, and FY25 forward and use them to keep rates down. Nonetheless, Joe explained the effort is cooperative.

With reference to the next five-year CAP, Joe stated that the MWRA Advisory Board recommends that the MWRA spend under a billion dollars, \$950 million. In the spirit of not being disingenuous, the Advisory Board removed all of the community projects; the lead pipe replacements are not part of this number.

Joe said that the Advisory Board Operations Committee offered—for the next two phases of Inflow and Infiltration (I/I) at \$90 million per phase. The Executive Committee increased that to \$100 million per phase. That would provide communities with dollars to repair their pipes, which are always in need of replacement.

The Advisory Board has decided that there is about six or so communities that are very aggressive in their use of I/I money. Thus, the Advisory Board has decided to put out a third source of money: another \$100 million in interim I/I loans. So in other words, if a community has used its Phase I and Phase 2 monies, we now provide zero percent interest loans, so communities can continue working on additional projects.

Joe discussed the Proposed FY19 Current Expense Budget. He recounted that the former Advisory Board chairperson, Katherine Dunphy, would ask if the Advisory Board could summarize its recommendations onto one sheet of paper. The idea was to be able to determine, in one look, what numbers were going up, and which were going down. In deference to her, the Advisory Board has created the Dunphy sheet. For FY19, the Authority’s proposed budget rate revenue increase currently is 3.9%. The Advisory Board pared that down to 3.07%. This would still provide the Authority with what it needs for the year. Looking forward, Joe discussed the projected negative rate increases. Reducing rates, Joe explained, is not a good idea for communities. In order to address this negative rate increase, the Advisory Board pushed the savings forward and used some of those projected opportunities that were set aside for FY24 and FY25 and utilize them in FY19-FY22. What you end up getting is an overall blending of rates so that the MWRA can stay in the 2.4% range.

Joe then transitioned to a discussion pertaining to the sale of water. He indicated that the Weymouth Naval Base development is a potentially huge economic driver; they need water to grow and the MWRA has water to sell. Although this equation is seemingly straightforward, politics invariably delay the reaching of a deal. In the Advisory Board’s budget comments, they indicated that they are working with the legislature to put a \$25-million-line item in the economic development grant for MWRA water lines so the Authority can expand into new towns, for the purpose of economic development. Peabody is going to be taking more MWRA water, and is one of the first projects with this economic focus.

With respect to capital financing, it is life-asset based. The biggest project coming is the Metropolitan tunnel (estimated at 1.5 billion approximately) to address redundancy and critical points of failure in the water system. The life expectancy of a Metro. tunnel is about 120-125 years. Joe explained it makes sense to capitalize this interest over a longer period of time because of its expected lifetime; this does bring up the issue of “generational equity.”

Joe then discussed benefits for communities, such as sustainable and predictable rates. He transitioned to a discussion of storm water fees and outlined the intended timeline for their implementation. The City of Newton has their stormwater program in place, and Joe believes that Boston Water and Sewer Commission will have

their program in place by this time next year. The hope is that the Advisory Board is making it easier for communities to take the next step.

Lexi and Andreae thanked Joe for his informative presentation and opened the floor to questions.

Bill Kiley from Boston Water and Sewer asked if energy production has been looked into regarding the Metro. tunnel project? It looks like such an opportunity. Has the Authority analyzed the possibilities of optimizing the energy produced by the tunnel? Joe replied that he does not have a specific answer. But such questions are being considered, as this project is just in its infancy. Joe noted that the Authority is adopting a program management approach to the project. At the April Board meeting, the Board of Directors approved the appointment of Ms. Kathleen M. Murtagh to the position of Director, Tunnel Redundancy Program. Bethany Card was hired in the fall of 2017 to work on the regulatory issues piece of the tunnel project.

Paul Lauenstein asked if Joe foresaw achieving the reduction in the revenue rate increase by deferring projects or by borrowing more money. Joe said neither; it is the product of strategy. Assumptions change as the process moves forward; you reevaluate pension contributes; and pieces shift as they come together. There are different opinions on how to get there—but there is no deferring of projects.

Lexi asked if Joe could expand on the \$25-million-line item in the legislature. Joe recounted the process of the Environmental Bond Bill and their Economic Development Bill. The line item would be put in for Mass Grants that would be used for pipeline projects that can illustrate the economic benefit of putting in the pipe.

The meeting was adjourned.

WSCAC's next meeting will be held on May 15, 2018 at the MWRA Facilities in Southborough. Please visit the WSCAC [website](#) for more information.