

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Committee of the Whole

Hearings on The Draft Final 2024 Capital Improvement Program And Current Expense Budget

May 24, 2023

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A Committee of the Whole meeting was held on May 24, 2023 for the purpose of conducting Hearings on the MWRA Draft Final FY2024 Capital Improvement Program and Current Expense Budget. The meeting was held at MWRA's headquarters at Deer Island in Boston, and also via remote participation.

Vice Chair Pappastergion presided at MWRA headquarters. Also present at MWRA headquarters were Board Members Flanagan, Foti, Peña, Jack Walsh, Patrick Walsh, and White-Hammond. Board Member Vitale attended via remote participation. Chair Tepper and Board Member Wolowicz were absent.

MWRA Executive Director Frederick Laskey, General Counsel Carolyn Francisco Murphy, Chief Operating Officer David Coppes, Deputy Chief Operating Officer Carolyn Fiore, Director of Finance Thomas Durkin, Director of Administration Michele Gillen, Director of Tunnel Redundancy Kathy Murtagh, Special Assistant for Affirmative Action Patterson Riley, Deputy Director of Finance/Treasurer Matthew Horan, Budget Director Mike Cole, and Assistant Secretaries Ria Convery and Kristin MacDougall participated at MWRA headquarters.

Vandana Rao, Executive Office of Environmental Affairs (EEA), and Joseph Favaloro, Louis Taverna, Matthew Romero, and James Guiod, MWRA Advisory Board, also participated from MWRA headquarters.

Vice Chair Pappastergion called the meeting to order at 11:00am.

**ROLL CALL**

MWRA General Counsel Francisco Murphy took roll call of Board Members in attendance and announced that Board Members Vitale was participating remotely. The Vice Chair announced that the meeting was being held at MWRA Headquarters and virtually, via a link posted on MWRA's website. He 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 FY2024 CIP AND CEB**

Louis M. Taverna, Advisory Board Chair, introduced the Advisory Board's presenters. Joseph Favaloro, Advisory Board Executive Director, briefly described the Advisory Board's historical role in the MWRA budgeting process. He noted that the Advisory Board's staff and membership strove to develop sustainable MWRA budgets with predictable and affordable rate increases. Mr. Favaloro then reported that Advisory Board staff would present recommendations for an

MWRA FY2024 budget with a 2.42% year over year combined rate increase that achieves the objective of "2.4 by '24" that was set by the Advisory Board five years ago. There was brief discussion about the "2.4 by '24" goal.

James Guidod, Advisory Board Director of Finance, began the presentation with a description of the Advisory Board's budget review and approval process. He recognized the cooperation and hard work of MWRA staff. Next, he offered the Advisory Board's comments and recommendations {C&Rs) on the MWRA's Draft Final CIP. He presented a chart depicting the proposed Next Cap Period beginning in FY24, noting that it highlights the isolation of the Metropolitan Water Tunnel Program from other projected expenditures and a newly-added Spend Rate Adjustment section. He then presented Advisory Board C&Rs on the proposed FY2014 CIP:

*The Advisory Board remains committed to reducing the levels of C/P underspending and will work with the Authority to analyze, and respond to, trends following the implementation of the 25% Spend Rate Adjustment.*

Next, Mr. Guidod briefly presented the Advisory Board's C&Rs regarding the CSO Control Program. He recognized the Program's success in reducing CSO discharges to date and noted that further reductions of remaining volumes would be challenging. He reported that the Advisory Board's analysis shows that the cost of eliminating the remaining CSO discharges was disproportionately high vs. the expected environmental benefits. Next, he presented the Advisory Board's C&Rs on the proposed budget for the CSO Control Program:

*The Advisory Board remains guided by its longstanding principle of "environmentally sound and ratepayer equitable," and cannot endorse a plan that can only produce environmental benefits through placing significant financial burdens on ratepayers.*

Mr. Guidod then discussed Advisory Board C&Rs on policy. He noted that the NPDES permit for the Deer Island Treatment Plant (DITP) was being updated, and advised that the Advisory Board is concerned that language related to co-permittees could impose a strain between the MWRA and its customer communities. He shared the Advisory Board's comments on the NPDES permit:

*The Advisory Board remains steadfast in its commitment to minimize the adverse impacts of any language designating MWRA wastewater communities as co-permittees. It aims to prevent any modifications or irreparable harm to the valuable and delicate relationship between the MWRA and its member communities. The Advisory Board strongly encourages the MWRA to actively participate in all necessary efforts to safeguard this shared objective.*

Mr. Guidod then described the Advisory Board's comments on MWRA's System Expansion policy:

*The Advisory Board recommends that the MWRA work collaboratively with the Advisory Board to identify additional funding from each of the stakeholders in the system expansion process -the federal government, the Commonwealth of Massachusetts, and the communities seeking to join the MWRA waterworks system.*

Next, Mr. Guiod presented C&Rs for the FY24 CEB. He began with a comparison of proposed vs. approved CEBs from FY19 through FY24. He noted the Advisory Board's recommendation for a revenue rate requirement of 2.42% for FY24. Next, he presented the "Dunphy Sheet," which breaks down factors used to develop the Advisory Board's recommended FY24 water and sewer rate increases of 2.42% for combined services, 3.84% for water, and 1.64% for sewer. He then presented a comparison of MWRA's proposed FY24 budget, its draft final budget, and the Advisory Board's final recommended budget. He recognized that MWRA staff had diligently adjusted the budget in response to Advisory Board input, especially with regards to proposed water rates, and noted that water rates would continue to be an important topic of discussion in the coming years. Mr. Guiod then presented the Advisory Board's "Spring Revisits" (adjustments made after the transmittal of the Proposed Budget) and advised that Advisory Board staff expected to recommend further adjustments to some line items, such as investment income. He noted Covid-related budgetary challenges such as supply chain issues and price fluctuations, and the pandemic's impacts on wages and salaries and utilities costs. Mr. Guiod then presented the Advisory Board's C&Rs for the Spring Revisits:

*Anticipated Spring Revisit item totals of--Water: \$3,613,906; Sewer: \$-5,040,340; (Totals exclude Debt Service Assistance and adjustments to Operating Reserve.)*

Mr. Guiod then discussed Debt Service Assistance. He noted that MWRA receives less debt service assistance than it did fifteen years ago, and presented the Advisory Board's C&R:

*Continuation of the Advisory Board's "Pay it Forward" Principle, applying FY23 Debt Service Assistance towards FY24 Budget. Water: \$115,168 Sewer: \$1,072,129.*

Next, Mr. Guiod presented C&Rs for personnel. He discussed MWRA's ongoing staffing challenges, which are consistent with those of employers across Massachusetts. He shared the Advisory Board's C&Rs for FY24 vacancy rate adjustments, which he noted were less than those of previous years:

*Adjustment of proposed vacancy rate: Water: \$750,000, Sewer: \$500,000.*

Mr. Guiod then advised that the Advisory Board looked forward to the MWRA Staffing Study, which will be undertaken per the Advisory Board's recommendation during the FY2023 budgeting process.

Next, Mr. Guiod discussed C&Rs for MWRA watersheds. He noted that the Advisory Board's

first recommendation was in response to an expected surplus in the Watershed budget:

*The Advisory Board recommends reducing the Watershed Reimbursement line item by \$500,000 to account for the assumption of the carryover of surplus from FY23 to FY24.*

He then presented the Advisory Board's C&R for the MWRA/Department of Conservation and Recreation (OCR) Forestry Program:

*The Advisory Board recommends that the MWRA take any and all actions needed to ensure that the Division of Water Supply Protection's active forestry management program is restarted and is exempted from the statewide forestry moratorium.*

He further noted that the Advisory Board shares MWRA's view that the Forestry Program is vital to protecting drinking water quality. Matt Romero, Advisory Board Deputy Executive Director, added that reinstating the Forestry Program is a high priority for Advisory Board staff and its membership.

Next, Mr. Guidod presented C&Rs for MWRA's Sludge Pelletizing Program. He advised that biosolids policy will continue to be a key topic of discussion due to recent and anticipated regulatory changes for PFAS. He noted that MWRA was developing plans and budgets for landfilling its sludge pellets in the event of a potential ban on their sale or distribution. He then described the Advisory Board's C&R for the Sludge to Fertilizer Program:

*With no new bans on the application in biosolids in effect yet, the Advisory Board recommends a reduction of \$1,550,000 to the Sludge Pelletization line item.*

Mr. Guidod then discussed indirect expenses for MWRA's pension and Other Post-Employment Benefits (OPEB). He noted the pension system's growing unfunded actuarial liability, and advised that, in the Advisory Board's view, a decrease in OPEB contributions could stall full pension funding by the MWRA Retirement Board's June 30, 2030 deadline. He added that the Advisory Board had offered a variety of options to address the pension funding challenges during the development of FY2023 budgets, including an extension of the full funding deadline, rate stabilization, a legislative approach, and simulations. He presented the funding schedule adopted by the MWRA Retirement Board on May 10, 2023, which retains a 2030 deadline for full funding and payoff. He reiterated that the Advisory Board had repeatedly made suggestions regarding MWRA's pension funding in the past, and that staff were eager to further discuss options with the Retirement Board. Mr. Guidod then described MWRA's OPEB policy and presented the Advisory Board's C&Rs:

*Consistent with the "two sides of the same coin" approach endorsed by the MWRA Board of Directors, and in line with previous MWRA policies (including in PFY24), the Authority should shift all water and sewer OPEB contributions PFY24 CEB to the pension*

*line item and continue to do so until "virtual full funding" level is achieved {95%-105%}; and, The Authority should not move away the Advisory Board recommendation on shifting all OPEB contributions to pension without extending out the current pension funding schedule provided it doesn't dramatically impact the CEB Rate Revenue Requirement.*

Next, Mr. Guidod discussed Capital Finance. He described defeasance as a means for managing rate relief, and advised that water rates were expected to be a continued challenge. He then presented the Advisory Board's C&Rs:

*The Advisory Board strongly advocates for prioritizing defeasance towards water debt service expenses in the upcoming fiscal year (FY24). This targeted approach aims to address the specific financial demands and optimize the MWRA 's financial position; and, Taking into account the projected availability of surplus funds for defeasance, the Advisory Board recommends allocating \$2,850,000 towards targeting water defeasance in the final FY2024 operating budget.*

Finally, Mr. Guidod briefly reviewed the MWRA Advisory Board's C&Rs for MWRA's FY2024 CIP and CEB.

Vice Chair Pappastergion invited questions from the Board.

Mr. Pappastergion asked why forestry programs had been suspended statewide. Mr. Romero advised that the moratorium was issued to address climate change, and that MWRA Advisory Board and MWRA staff shared the view that MWRA's Watershed Forestry Program should be exempted from any moratorium because the Program is needed to protect drinking water quality.

Mr. Pappastergion asked if the importance of MWRA's forestry program had been explained to members of the Administration. Mr. Romeo advised that his understanding is that it was, including from the Department of Conservation and Recreation (DCR), but the Advisory Board has not seen any of the information presented.

Vandana Rao, EEA Director of Water Policy, explained that the moratorium is a temporary measure as forestry programs and their impacts on climate change are assessed. She advised that the Administration would reach out to MWRA staff and other constituents to discuss the matter. MWRA Executive Director Fred Laskey confirmed that a meeting had been scheduled for the following week.

Mr. Pappastergion stressed the importance of the MWRA Forestry Program's reinstatement.

Mr. Laskey noted that under the moratorium, MWRA was permitted to execute existing forestry contracts, but could not advertise or award new contracts. There was general

discussion about staff's discussions with the Administration, the moratorium's intended purpose, MWRA's positions on the moratorium, the significance of the Forestry Program for MWRA's drinking water quality, and the potential impacts of a permanent moratorium.

Mr. Pappastergion asked if the Advisory Board's recommendation to reduce Watershed Protection funding was related to the forestry moratorium. Mr. Guiod explained that the recommendation was not related, and that it was intended to address an ongoing budget surplus for the Watershed Protection line item. Mr. Favaloro noted that the reinstatement of the Forestry Program, rather than its costs or revenue, were priorities for the Advisory Board.

There was general discussion about the implementation of the moratorium and the importance of its reinstatement. Board Member Foti asked if MWRA/DCR could regain lost ground with regards to watershed forestry by accelerating the Program's schedule if the moratorium were eventually lifted. Mr. Laskey responded in the affirmative, and noted that less than 1% of

MWRA's watershed land undergoes forestry maintenance in any given year. There was general discussion about the Administration's strong commitment to addressing climate change. Mr. Pappastergion asked which agency administers MWRA/DCR forestry contracts. Mr. Laskey explained that the contracts were funded by MWRA and administered by OCR. Mr. Laskey advised that staff would keep Board Members apprised of any new developments regarding watershed forestry.

Board Member Peña requested more information about the proportion of CIP underspending that was related to supply chain disruptions vs. internal resource limitations. Mr. Guiod explained that the CIP spending variance had been consistent for a number of years. Michael Cole, MWRA Budget Director, confirmed that the spending variance had remained at approximately 25% from FY2004 through FY2022.

#### MWRA'S FY2024 DRAFT FINAL BUDGET HEARINGS PRESENTATION

MWRA staff presented the Draft Final Budget for FY2024. Thomas Durkin, MWRA Director of Finance, began with a brief overview of the Spring Revisit process. He described factors that drove budget adjustments during the Spring Revisit, such as inflation, interest rates, new contracts and procurements, and regulatory changes.

Next, Mr. Cole presented Spring Visit adjustments for Direct Expenses, including a \$1 million increase in the vacancy adjustment line item, which reduced the expense line for wages and salaries. He then reported that the vacancy rate assumption had been increased to cover approximately one-third of MWRA's vacancies. He further reported that staff's preliminary assumptions for chemicals expenses (approximately +75%) held steady during the Spring Revisit, and that a preliminary budget increase for utilities (approximately +10% for electricity) had been reduced, due to a favorable bidding process for MWRA's interval accounts. Mr. Cole

then noted that staff continued to fine tune the budget for Maintenance expenses, and advised that the budget for Other Services could be effected by an upcoming sludge pelletization contract award, and by a recommended award for grit and screenings hauling and disposal that came in higher than the Engineer's Estimate due to significant increases in landfill costs.

Finally, Mr. Cole discussed Indirect Expenses. He noted that adjustments to the watershed reimbursement line item continued as staff factor in DCR's new fringe rates and wage assumptions.

Next, Matthew Horan, MWRA Deputy Director of Finance/Treasurer, presented changes to the Capital Finance budget during the Spring Revisit. He explained that staff had refined the estimates for the State Revolving Fund (SRF) Program and Senior Debt, to reflect recently completed transactions, changes in market rates, \$1.2 million in Debt Service Assistance, and a proposed defeasance. Mr. Horan then advised that the budget for Subordinate Debt had been adjusted. He explained that the Federal Reserve had increased interest rates by 50 basis points (5%) since the submittal of the Preliminary FY2024 Budget in February, 2023. He further explained that increased interest rates are putting pressure on MWRA's Subordinate Debt, and that staff expect to propose a higher assumption for Subordinate Debt in the Final FY2024 budget. Finally, Mr. Horan reported on changes to Revenue assumptions. He explained that Investment Income has benefited from the increased interest rates, and that staff are working to offset the Subordinate Debt with Investment Income gains.

Finally, Mr. Durkin described the next steps in the budget process. He acknowledged the productive working relationship between MWRA and the Advisory Board, and advised that staff would develop formal responses to the Advisory Board's C&Rs.

(Board Member White-Hammond joined the meeting, and Board Member Foti left and returned to the meeting during the presentation.)

Vice Chair Pappastergion asked if there were any questions from the Board.

Board Member Jack Walsh asked for more information about staffs budget assumptions for interest rates. Mr. Horan explained that the assumptions were based on historical data, current market trends and general market dynamics. He advised that assumptions for interest could continue to climb if interest rates continued to increase. There was general discussion about fluctuating interest rates and MWRA's strategies for managing the budget in a volatile market.

Mr. Pappastergion asked if MWRA's rate revenue requirement had changed during the Spring Revisit. Mr. Durkin explained that an evaluation was currently underway, and noted that the projected rate revenue requirement would likely decrease for the Final Proposed FY2024 budget. Mr. Laskey requested a sense of the Board regarding the Advisory Board's

recommended 2.4% rate revenue requirement for FY2024. Mr. Foti noted that in his opinion the MWRA and the Advisory Board should continue to negotiate a final proposed rate revenue requirement based on sound finance practices, rather than by Board mandate. Mr. Durkin explained that staff would continue to work with the Advisory Board to reach the 2.4% goal if at all possible. There was brief, general discussion about the rate revenue requirement.

Board Member Vitale asked for more information about how MWRA's yield on the CY2022 pension and Other Post-Employment Benefits (OPEB) portfolios and funding level compare to those of peer organizations. Mr. Horan explained that MWRA's pension fund (-12.2% return for 2022) was similar to that of the Massachusetts Pension Reserves Investment Trust (PRIT) Fund (-10.7% return). He further explained that the MWRA pension system dropped from 89.1% funded to 88.4% funded in 2022. Mr. Horan noted that rating agencies generally considered MWRA's pension fund to be well funded and that the drop is not a major concern because the MWRA Retirement System continues to meet its liability obligations. Mr. Horan then reported that the MWRA OPEB Trust had a return of approximately -12% because it was fully invested in the PRIT fund, and the most recent actuarial study showed the OPEB Trust to be approximately 60% funded.

Mr. Vitale asked if MWRA was planning any changes to asset allocation for the pension fund and OPEB Trust. Mr. Horan explained that the PRIT fund OPEB allocations were managed by the Massachusetts Pension Reserves Investment Management Board (PRIM), and that the MWRA Retirement Board was actively reviewing the pension fund to identify potential reallocations.

Mr. Vitale asked if PRIM had announced any plans for PRIT fund asset reallocation. Mr. Horan explained that he was unaware of any such published announcement.

Vice Chair Pappastergion asked if there was further discussion or questions from the Board.

Hearing none, he moved to Adjournment.

#### 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		
Foti		
Peña		
Taverna		
Vitale		



Yes

No

Abstain

J. Walsh

The meeting adjourned at 12:08pm