SOUTH CENTRAL CONNECTICUT REGIONAL WATER AUTHORITY

**PENSION & BENEFIT COMMITTEE**

FEBRUARY 22, 2024

MEETING TRANSCRIPTION

[PENSION & BENEFIT COMMITTEE MEETING BEGINS AT 12:37 P.M.]

Catherine:

All right. Thank you very much. The first item on the agenda is the approval of the minutes from the January 25th board meeting. Is there a motion to approve the minutes?

Kevin:

So moved

Mario:

Second.

Catherine:

Seconded. Is there any discussion? Any changes? Okay. All in favor please signify by saying aye.

Committee members:

Aye.

Catherine:

I think I saw her mouth move saying aye.

Suzanne:

Aye.

Catherine:

All right. The minutes have been approved. The second item on the agenda is, as you know from last month we talked about updating the IPS and making some changes. I spent some time agonizing over the language. And what occurred to me is that if we're going to make this change, we should make the change with information that will address the existing language. Which seeks or has a goal of full funding of the pension fund by fiscal 2025.

As you heard me say before, I don't like stretch or I don't like goals that are unrealistic. As part of the budget process this year, we are going to receive from our actuary projections on a three year and five year basis to get us to full funding. I would like to be able to abuse that information to make a decision about how we change this language. And that deals with the full funding.

But I also want to take a few minutes to hear from all the members of the board what their concerns are about... What, if anything, that this board would consider to alter whatever date we decide to move forward. We talked in prior months about obviously market conditions. And certain other financial conditions, how full funding and meeting that goal might affect the rate payers. But I want to know any other concerns because I do think that there should be some guardrails. It's dangerous to give a board authority, in my opinion, it's dangerous to give a board of authority to just say, "Well, we don't feel like funding it this year." Because then it just pushes the obligation down the road.

So if there are things that you think that we haven't already considered, I'd like to understand what those are before we work on that language. Leave it open to the floor.

Mario:

So that'd be things like operating budgets?

Catherine:

Yes.

Mario:

You're in this position, requirements and things like that.

Catherine:

Yes. Let me [inaudible 00:10:13].

Mario:

So would it be Catherine while you're doing that, are we looking for specific criteria like a checklist that we're going to go through to see whether we do or don't make that projected contribution that year? Or continue on that same path? Once we pick it? Once we choose it?

Catherine:

Okay. So this is my philosophy, speaking for myself.

Mario:

Yes, that's good.

Catherine:

Under all circumstances, in my opinion and view, we should always make the ARC, the Actuarially Recommended Contribution. We have been banking ARC plus for a number of years, which actually is helpful because the rating agencies like that. We haven't made the ARC plus whatever it is will get us to 2020, full funded in 2025. Part of that is market driven and whether or not we get there in 2025, 2026 or 2027, will also have be affected by the market. But if we give... I don't remember what the number was to give us a full funding in 2025. But it was a big number and if we took that amount, that means that would require the RWA to move money from other necessary financial expenses like the construction fund or might impact the rate payers.

I do think that we have to give some flexibility to management and just to the needs of the organization to avoid creating other financial issues or challenges for organization. But I do think it makes sense for us to get to full funding as quickly as possible within reason. So my question to the board is what do you think is within reason?

Mario:

Can we just hear Rochelle's answer as to how much? Was it 8 million?

Rochelle:

I think it was approximately that amount several months ago. We are going to get an update from the actuaries. Which the one year would actually be, I do expect it's going to be not crooked but to contribute to that amount.

Mario:

And that's coming shortly this week or next week you're supposed to get it.

Rochelle:

Correct.

Mario:

So by next I know-

Larry:

Sorry, Mario. It depends on the year, but what is an average or a range that we've made over the ARC?

Rochelle:

It's actually on the low end. This is from memory, but on the low end it was probably a little over a million on the high end. In fiscal 2023, we actually contributed 2.3 over and we're already for this year even our budget is 1.8 over.

Larry:

Okay. And that's always a [inaudible 00:13:23] part.

Mario:

So my philosophy is I agree with everything that you said and we should get it fully funded as quickly as possible with minimal impact to the rate payers. I like more flexibility to... That's why I asked whether you look at for a specific thing that would require the board to take one action or another. I like a little bit more flexibility because of all these variety of factors and the unknowns that I don't want to be. If it's 2028 instead of 2027. Because I think we're getting close, I'm okay with that. I just don't know if that negatively impacts employee morale or whether that negatively impacts... I think that we're making an effort showing that we're trying to get fully funded and I like the fact that we have a plan and a goal. Of course we need that, but I don't know.

My philosophy is more let's make that goal. I think we're all in agreement with it and we'll try to do our best. But if something comes up, it's not just that we just will decide not to make it, but maybe we could cite that criteria. So I think you're looking for reasons to that year why we didn't do it. So I was just wondering if it was going to be something you were looking for, something that we would have to specifically point to one or two things. And say we didn't make it because of reason X. So that's why I was asking that question originally.

Catherine:

Larry?

Larry:

Something like considering extenuating circumstances such as... And then we could list four or five criteria because you're never going to get it to be all inclusive.

Mario:

No, right.

Larry:

You're going to have to have some sort of other... And if you could label that extenuating circumstances that would leave it up to the board to decide what's an circumstance. And it's in line with the examples that are cited.

Rochelle:

We can list examples. Doesn't have to only be based [inaudible 00:15:30].

Larry:

I just wasn't sure if something like that would be said it would be sufficient for you what you were thinking.

Catherine:

Yes, I'm a big checklist person. [inaudible 00:15:47] I like the idea of, "Okay, these are the types of things we should consider." So if we can make a bit of a list does not have to be exclusive, or we're all-inclusive rather. But I do think that it would be helpful to have some list. Mario, we keep stepping up [inaudible 00:16:07], so hey.

Mario:

I like to listen. So first and foremost though, I was going to say it was definitely want to make the recommended minimum payment. I think we're all pretty much in agreement with that. And I think it's been great that we're being able to go above and beyond figuring the above and beyond. If I remember correctly, the $8 million or so was because the market had tanked. And I hate to look at a one-year market to determine what we need to hit so that we can meet a deadline like 2025. I prefer to look at a five-year span of the market and then try to make a determination because that could adjust. Where are we going, what year we hit? Again trying to put additional funds towards it. But if all of a sudden we're supposed to put an 8 million in this one year just to hit a target doesn't seem to make sense.

So I prefer to use of a five-year. We definitely need to look at the end of the year, where are we with coverage and so how much do we have best... I won't say disposable income, how much do we have to assign to some of our long-term funding.

Larry:

Prior to the ten-year capital plan. Because that looks at the organization holistically in terms of capital operating expense. Financing the ARC that we have to make and then we can consider what we can do above that. So that might be a good holistic model as it looks at the organization five years out. The only thing we would've to do to that is maybe try and back to the market. So that could be one way to take into account.

Catherine:

I was going to say David or Suzanne? Suzanne?

Suzanne:

So a couple of questions first and then I have some few things to share. What has been our funding percentage status? What was it five years ago? What is it now?

Rochelle:

So I can't go back five years, but from memory, our highest year was at the end of fiscal 2021. And it was one of the plans was actually in the low nineties. The other one very high, like 89%. It went down in 2022. And as we've talked about in 2023, it went down even more. So now both plans are in the high seventies and it's really like Mario you said it's the market condition that is really causing the concern and they could reverse.

Suzanne:

So thank you for that Rochelle. So I think you made my point very well. I think talking about fully funded status as a percentage, is not the way we should do this. Because it is going to do this all the time and it's a little Charlie Brown and Lucy. And so I'm thinking the goal should be more about meeting the ARC regularly as Mario had said. And supplement funding when all the things Catherine, that you want to mitigate on the list to the best of our ability to maximize funding. And to fully fund as soon as feasible.

But fully funded is a little bit like when you're on a boat and you set your pilot to a certain point. When you get close to it actually can't quite get onto the point because it's so close and every time you move it's getting you a little further away. And I think fully funding status does that because of the market swings because we now have a significant amount of money under-investment. So I wouldn't chase the fully funded percentage. I would chase the discipline of contributing and if that's what appeals to credit agencies and provides us the most consistency in impacting rate payers, then I think it's kind of a home run amongst them all.

Rochelle:

Okay. Theoretically you could reach a 100% funded and then have market reverses.

Catherine:

Thank you. That's helpful. David, did you have any answer?

David:

I had a question first for management because I wondered what the rating agencies are thinking. Because you're putting your budget together now and the goal is to be in the next budget, be complete on paper. We're not going to do that, it doesn't sound like. So what are you telling them?

Larry:

No, well, we're telling... Matter of fact, we just met with a rating agency within the past two weeks and first of all very favorably received. We asked them for a rating increase. Moody seemed to be more receptive. Excuse me. S&P seemed to be more receptive to doing that, although neither one would commit one of the topics that we talked about that we had a plan for getting the fully funded. We planned on 2025, but we were going to have to put that out a few years given the market conditions. They didn't react to that negatively, but they didn't react to it positively either. So they really didn't say much of anything about that other than acknowledging that we had a plan to get there and that we were going to continue to evaluate that.

Rochelle:

I think maybe adding to that, I think what they tend to like, is that we contribute above the ARC. I think that's what they're looking for.

Larry:

And we'll continue that of course to get into whatever they like to know you've got a plan to get out that hole. Whatever hole it is, whether it's operating or whether it's financial, you've got a plan for it. As long as you can show that and it's credible, then they will be supportive. Then you've been following it and we've been following it exactly. Which consistency is very important. Do we have that plan stated somewhere? Is it written down like [inaudible 00:22:51].

Mario:

Yeah, that's what I just pulled it up, the agenda. Because that's what working on, that's what we're working on. Yeah.

Rochelle:

Are there any other-

Larry:

Just a comment though, if I could. I think if we have been contributing on average last few years, million and a half or 2 million over the ARC, if you count it this year and the other years. Then we should make a policy that we want to make a plan that we want to continue doing that. Even if it means another percentage in the rate case or something, we want to continue making it in the same range until we get to where we are. I don't think we would want to fall below the range of the extra funds that we've been putting in.

I think we sort of committed to that because we've done it now as practice with so many years. I'd like to see us continue that. Of course we know that means it's going to stretch out from fiscal 2025 to 2027 or 2028, will now assume... Go ahead, Mario.

Mario:

Sorry Mario. Just Rochelle again, the recommended contribution that's looking at the marketing condition, also the value.

Rochelle:

Correct.

Mario:

So I don't want to be in a position where they're going to recommend a little bit more because the market's gone down. And therefore they say, "Well, you need to contribute." And then on top of that, keep contributing more. They're already making us and we've committed to beating that contribution. So that's true. All four, getting us as to close to a 100% as we can get as it moves back and forth. I like that way way point, Suzanne.

Rochelle:

And maybe I could just follow up on earlier what you said and what David said. So in some years what we've done is we budgeted maybe just barely more than our, but then in April and before the end of the year we look at our financial status and make an additional pay.

Kevin:

Yes, it's been a priority clearly with our extra funds.

Rochelle:

Kevin, you have comment?

Kevin:

Well, just out of curiosity, I think we touched on it. So we get fully funded one year. What does that mean? What do we do after that? If the market conditions reverse? Do we continue to make contributions every year?

Rochelle:

Well, once we're fully funded... And we can also have this discussion with our asset manager. What will likely happen is that the investments will be adjusted to less risky even though we are [inaudible 00:25:31]. But there will be adjustments so that we will be probably more in fixed income course that wasn't great for us for the last few years.

But that's up to our investment advisors. So we hopefully will stay closer to that full funded status as long as as we're manage.

Kevin:

And do we make it? Suzanne wants to say something too. Go ahead, Suzanne. I'm sorry.

Rochelle:

Suzanne?

Suzanne:

No, that's okay. I'm perfectly fine waiting. I just want someone to know that I am waiting, but I will jump in since you gave me the floor. So to the question that was just asked about what happens when we go fully funded, what I would suggest is that we set a benchmark of, I'm making this up eighty-five percent funded. It is automatically we make a consideration for additional contribution whether we can or we can't, but over a certain percentage that doesn't become automatic and mandatory because to me a 100% fully funded is a little bit like this myth. Because once we get funded to a certain status on this particular one, we got to start working on the other one. So we have to be fully funded for a long time of all of our obligations related to our pensions. So I think if again, to Larry's point, if we set up the discipline, the discipline says we make every ARC to Mario's point. The ARC considers market conditions, we always consider additional contributions as long as the pension is under 85% on making that up and contingent on all those other conditions.

I think that that is a very realistic set of parameters that you can't argue with. And the truth is we can't do any more than that and still be fiscally responsible both to our repairs and to our own financials. So that's my thoughts on that.

Rochelle:

Suzanne raised a good point. You still have OPEC and other-

Kevin:

Right, exactly. That was the next priority.

Suzanne:

And there's also a serious amount of irony in this whole thing that the credit agencies are worried about our $100 million dollars pension obligation when we have $600 million of debt outstanding and et cetera. So I think it's just let's set up the discipline and stick to it.

Catherine:

Good point. [inaudible 00:28:19] your question. So we will still have annual service costs because we used active employees that are creating benefits.

Rochelle:

Is there anything else? This is very, very helpful to me, so thank you everybody. Suzanne, did you still have another question? Just want to make sure everybody is good. So I appreciate your feedback. This has been helpful and at the next budget benefit meeting, we will solve this.

Mario:

Oh wow. Solve the pension process. It's great. That's what I applied for that.

Suzanne:

How many meetings does it take to write the language?

Rochelle:

Yeah. Too many lawyers on this board. That's the problem.

Suzanne:

I didn't say that.

Catherine:

Yeah, you did. There's nothing else on the agenda for this meeting. So [inaudible 00:29:28]

Suzanne:

Thanks, Catherine. I think that was a worthwhile conversation.

Catherine:

Very helpful to me. Thank you everybody. All in favor of adjournment? [inaudible 00:29:39]

Committee members:

Aye.

[PENSION & BENEFIT COMMITTEE MEETING ADJOURNS AT 1:00 P.M.]