REPRESENTATIVE POLICY BOARD

FINANCE COMMITTEE

APRIL 8, 2024

MEETING TRANSCRIPTION

Tim:

Okay, well welcome aboard. I'll call the meeting of the Finance Committee dated today, Monday, April 8th, 2024, 5 o'clock. Our safety moment, which is up there, has all to do about back injuries. We don't want to have back problems, so I say the best thing to do is just sit down, sit down properly and enjoy the game tonight. With that, we have the approval of the minutes for March 11. Do we have a motion?

Jay:

I'll make a motion.

Tim:

Thank you.

Tom:

I'll second

Tim:

Thank you much. Thank you for that Tom.

Tim:

Discussion? Hearing no discussion, I'll call for a motion to approve. All those in favor?

Committee members:

Aye.

Tim:

Abstaining? Motion carries those present. We're now getting into the real big part of the meeting, which is reviewing and discussing the proposed capital and operating budgets for fiscal year 2025, which is the period June 1, 2024 to May 31, 2025. And that'll be presented by staff. Rochelle, I guess is the primary driver of this. And upon a two-thirds vote, we will convene an executive session pursuant to CGS section 1-200(6)(E) to discuss matters covered by section 1-210(b)(5)(B) pertaining to commercial financial information. So I guess we should call for that motion to go into executive session.

Tom:

So moved.

Tim:

Thank you Tom. Do we have a second?

Jay:

I second.

Tim:

All those in favor?

Committee members:

Aye.

Tim:

Opposed? Seeing none. We're in executive session.

[EXECUTIVE SESSION FROM 5:03 P.M. TO 6:38 P.M.]

Vin:

We will now move on to a review of the quarterly financial update. We'll have Rochelle….

Rochelle:

Yes. Thank you.

Vin:

Thank you.

Rochelle:

I'm going to go through this fairly quickly so if you have questions just, now let me know. On the asset side of the balance sheet, as you'll probably expect, you can see that utility plan is up year over year. So this is comparing February of 2023 to February of 2024. Depreciation is also up and total utility plant net is actually up by 17.9 million. You can see that the construction work in progress is relatively high in both the years and that's because of some of our very large multi-year long projects, although I will expect to see what balance will go down when we see fourth quarter because there will be little projects [inaudible 00:01:18] service.

For goodwill we do now amortize that once a year at the end of the fiscal year. So that's going to be a pretty constant roughly $250,000 reduction year over year. For cash and cash equivalent, so again, it's comparing February of last year to February of this year. So the key drivers of that cash and cash equivalent increase is actually the year of disposition that we did in May. So even with our [inaudible 00:01:59] acquisition, our [inaudible 00:02:00] fund is still up year over year, February to February, and we also put $1 million into the general fund, so that is also up, and actually the revenue fund is down by about $700,000 year over year.

Accounts receivable, and this is a positive thing that it's actually down year over year by about $2.6 million. The lease receivable and related, either on the liability side or on the asset side, this is the lease accounting that you heard about that went into effect last fiscal year and we'll be updating that, in discussions with our auditors, we're going to update it once a year so that way we're not dealing with various changes that happened throughout the year. That was their recommendation. From restricted assets, that's actually up by about $4.3 million. A couple of key drivers of that... Good news is actually, our construction fund is actually up by about $1.6 million and that's due to the debt issuance that we did for the 37th series and our year-end [inaudible 00:03:27], so those two things combined have actually resulted in having a little bit more monies available than the actual capital.

Also our operating reserve was up about $1 million. Again, that was part of our year-end disposition and our debt service fund is also up by to close to a million and other changes there, regulatory assets is actually down a little bit year over year and this is where our cost of issuance is and our amortization of that as well as the amortization of our regulatory assets. The deferred funding, associated deferred charges associated with pension and OVDEP, we do amortize every month but the big updates will come when we get our actuarial report for the end of fiscal 2024. And also the deferred outflows associated with refunding, that's all the amortizations that we do throughout the year.

On the liability side, so total liabilities are actually down by $5.7 million. The non-current liabilities are actually down by $9.2. So we did do a relatively small debt issuance for the 37th series. So what we issued in debt was actually [inaudible 00:05:06] in August of 2023. So that's down by about $6.1 million. Their premiums, we amortize that, that's down by about $2.7 million.

Unfortunately, the pension liability went up last year; that was primarily due to the market and the pension liability and the OPEB liability will be updated based on the actuarial reports that they get updated next year. The lease liability is that new complex lease accounting that we now have to do. Per portion of the debt is actually up. So that represents our August of '24 upcoming payment versus our August of '23 payment. Current portion of the DWSRF, that's actually up a little bit. We do now have 13 DWSRF loans. So we've taken advantage of the loss loans and the associated demands. And without maybe going through all the details, you can go down to the bottom and you can see that total net assets are up year over year by $29.8 million. So that's our change in our net position, that's positive.

So to highlight a couple things. So you can see probably not unexpectedly that meter water revenue is actually down by $2.3 million. Our other water or another proprietary is actually from a first revenue perspective is upper bid over budget. O&M is actually down by $2.5 million, which is roughly 5% and I'll get into that in a little bit more detail more thoroughly. Also wanted to point out that interest income you can see is up pretty significantly over the budget. That's because the higher interest rates have remained with us. So this is a good thing from the interest income, not necessarily a good thing, maybe go out to debt. And also that intergovernmental revenue that our smaller grant that we got from DWSRF as I mentioned earlier, we are expecting another grant where we close on the West River project financing with DWSRF.

This is, let's go down a little bit more. So this is our main maintenance desk projection. We did improve this since the last quarter. So as of our through February results we're projecting to be at 120%. The operating maintenance budget does tie to the bottoms of detail that you saw in their detail budget post. Pilot is expecting to come a little bit under budget so that's helping. And then from a direct service perspective, the other thing that's helping is actually we did expect to close on two DWSRF projects much, much earlier in the fiscal year. It's taken a while to get through, to get the documents back from the state. So we are hoping to still close on one that's going to be closed at the Norwich project. The [inaudible 00:09:07] is the other project that we've expected to close on. I think realistically that's going to have to be rolling into next fiscal. [inaudible 00:09:20] our rates. So we are pleased now even after the cold, wet summer, we did project 120%.

This is really, we show this and maybe even go down to the bottom part. This is really to depict sensitivities to our projections and I think to me the key takeaway here is even with just three more months to go, you can see that there is definitely an impact and it can impact your coverage and whether or not you have a draw. We do know that May does tend to be a high collection month, but we feel that we can't wait till the very end of the fiscal year because if we're following that assumption you don't have any time at all to recover. So I'd like to show this because it shows even with small changes, it is only three months. We could still have a couple of percent impact. So we kept, because of where we were earlier in the fiscal year, we're doing a 5% reduction and a 10% reduction.

The upper part of the chart, I won't go through it in detail, but it's basically our projections under Generally Accepted Accounting Principles and it's a little bit different than the maintenance test down below.

You go to our, the next thing is schedule B. So from the year-end projection assumption one, again this ties to the detail that's in your budget books and at the high level what we just went through in the presentation, the level of projection for fiscal '24 is I mentioned it does include a small additional pension contribution subject to authority board approval. And we are projecting now to come in under our budget. We're going to be watching that closely, especially areas like medical, like chemical.

And then for the three-month actual, I'm just going to talk about a few of the larger variances. So I'm over on the left side of the page. So we are still a little bit under head count for payroll. All of that is also being a little bit offset by the events in this fiscal year between capital and O&M. Another of some of the larger variances collection expenses is actually running under and that's primarily banking fee related that is less than budgeted and also some of our re-billing that we do associated with collection activity. Outside services, another area that is under, we are expecting it to end the year under but not quite this significantly.

IT is another area that we're currently under that is primarily related to timing more than permanent changes and that's also the case for [inaudible 00:13:16]. Any questions here?

Moving on to capital, before we go through intimate detail of the capital program and some of the variances here, for overall, we are projecting that we're going to actually exceed our 96% target. But there is a caveat and the caveat is it does assume that there's going to be some additional projects put into the project reserve pending the authority approval to do so. If we do feel that's a prudent thing to do because we've definitely had projects that have been impacted by late congressional corrected spending. We don't want to give that up, but we had to give [inaudible 00:14:12], as an example. They just came through fairly recently, but still in the timeline.

We also have had some permitting challenges. So we want to put money aside for situations that have been impacted by external factors. The Clarifier project that was spoken about as part of the capital budget, that definitely is impacted by supply chain. So we think that it's prudent to put money in effect aside, so it's available going into the next fiscal year. And with that I'm just going to highlight some of the larger variances here to date.

So one of the underruns is in the area of the project, the Whitney Dam project. And that is currently under budget and that's really due to needing to really evaluate all the alternatives, working with the early contractor involvement and making sure that we fully understand the different options and also beginning to work through some of the permitting requirements. So that project is currently projected to come in under budget. There's also been some amendments that have been done throughout the year, taking money from the Whitney Dam and moving into projects that are requiring that funding. The

Prospect Dam is a project that is significantly under, that's one of the ones that's on our list to put into the project reserve and that's really due to permitting challenges.

The Clarifier project is another one under treatment that's well under budget and at the March meeting the authority did approve putting what that $5 million into the project reserve and that's definitely supply chain external factors. The other projects that are well under, the Derby Tank is actually another project that did under run and that has to do with how the project was managed from a change request as well as the less rock excavation that happened associated with that project. Another treatment project that's under is Lake Gaillard HVAC . That's a TDF project that was very recently awarded. But again, as I mentioned, the waivers that we needed just came in the last few months.

Some of the [inaudible 00:17:32] that I talked about that's under by almost $900,000. For a general plant, the CVS project is one of the larger variances and based on the timing of that project, that's another one that we're planning on requesting at least some of that money going into the project reserve. So you can see overall though, assuming the projects that they request moved to the project reserve get approved will actually be the 96% and prudently, putting money aside is necessary. We'll be definitely monitoring this especially as we close out the fiscal year and we didn't want to ask money to get moved into the project reserve too early in the year because it is really ever evolving and we're really seeing that we're more of a pretty fluid environment to monitor and make adjustments in the capital plan. Any questions on capital?

Okay, the next section, this is where we show both in percent and then dollars from our investment earnings.

So at the time that we did the budget, we assumed that our liquid funds would be about 3.5% and we have seen the higher edges rates [inaudible 00:19:12]. So that is definitely helping with our interest income. You could also see here the size of the funds that we actually have invested. For the long-term investments, we'll probably be doing some near-term investment as we close out the fiscal year because we do try to balance a higher rate with when our money is in the SIP, the Connecticut SIP, we get interest payments every month versus in some of the other securities you're getting them twice a year. So we need to look at that because this is investment earnings for our maintenance tasks. So we're trying to balance that out. But we are expecting that we find some good securities, we'll lock in some higher rates and replace also some of these lower interest securities, they were done at the time where the SIP was like 1%, so at the time they were good investments, but the rates are much higher now.

But then on the very last page, this is the actual cashier to date and the subtotal is what counts for our maintenance tasks, but we also monitor the interest earnings and our other funds. So for the growth fund, the interest stays within the fund, and for the construction fund, the interest also stays within the construction fund. And basically we are now, I think I mentioned this before, we're only drawing money out of the construction fund right in advance of our funding so we're not deterring it earlier than we should. And so year to date we have a little over a million dollars that's in that fund, that's available to fund [inaudible 00:21:12]. That's the end of the presentation.

Vin:

All right, thank you for that. Anyone have any questions? All right, let's move on then to the dashboard. Is that Rochelle again?

Rochelle:

Yes.

Vin:

I thought so. Okay, that was a guess and I got it right. Thank you.

Rochelle:

So the first item is the coverage which we just talked through. So through February we were projecting to be at 120% with no drop. What we're looking at with the capital is where we are in each point during the fiscal year, then in each quarter. And so although I talked about putting more monies into the project reserve, we're actually at 48% on a much higher budget than we were last year at 54%. So we have spent so far this fiscal year a little bit more than last year at this time.

We're also very much monitoring the accounts receivable and in particular we're monitoring where we are now versus pre-pandemic level. So pre-pandemic level, we're considering February of 2020, and you can actually see that for total water revenues, we're actually now slightly below the pre-pandemic level. And for residential we're just slightly above that class. This is, we're looking at here over 90 days. So we're definitely pleased with how we've been able to reduce the receivables during the pandemic period. They were definitely allocated.

Another key thing that we look at is our pension plans and what's happening with the market value, what's the return, how did it compare to your prior year? And we can see that at the end of the February, the pension plans were up relatively significantly versus where they were February at this time.

And then if you go to the next [inaudible 00:24:04], this I found interesting, I think I mentioned it earlier. If you look at it, last February, the average daily production was 44.8. And this year the average daily production is 43.3 so definitely significant difference. I would expect that the 43.3 probably drops a little bit when we close out this year just based on what we expect May and April to be. The disinfected by-products are at their target. Unaccounted for water is off a little bit and that reflects December through November. And then we have the operational metrics on service disruptions and we have remained under the target inquiries on customers who want water for their [inaudible 00:25:10]. Questions?

Vin:

Hearing none. Thank you Rochelle, for that presentation. Okay, so I'm going to cover, unless anyone else has a dying desire, the April 25 meeting, is anyone else interested in covering that? Hearing none. I will cover that and I'm down for the 23rd, if anyone is interested in covering the 23rd, I will swap out with you since I'm covering the 25th of April. All right, be aware of the upcoming meetings. The consumer affairs is meeting on April 15th and we are meeting on the 13th at five o'clock. It's a hybrid meeting. All RPB members are invited to attend either. Is there any new business to come before the body?

Tim:

Vin, I just wanted to step in, not with new business, but I can certainly cover the April 25th if that helps you out.

Vin:

I appreciate that. You will save me some headache, so we will put you down.

Tim:

Okay, good.

Vin:

Thank you. Any new business? Hearing none. Is there a motion to adjourn?

Tim:

So moved.

Vin:

Thank you. Is there a second?

Jay:

Second. Thanks everyone.

Vin:

All right. All those in favor? Say aye. Opposed? Hearing none. Anyone abstaining? We stand adjourned at 7:05.