Representative Policy Board
Finance Committee
South Central Connecticut Regional Water District

Finance Committee
Special Meeting Transcription

Tim:

So, let us bring together the finance committees meeting of tonight. It's a special meeting for April 20th, five o'clock meeting to review the proposed regional water authority fiscal two zero two two capital operating budgets. We're going to move it along to the staff, but we're going to read up on a safety moment. Oh, it's about housekeeping. I don't do that.

Tom:

(laughs)Come on.

Tim:

Have you guys had enough housekeeping?

Tom:

No.

Tim:

Yeah, there we go. So, the safety minutes moments over, housekeeping is still in disorder. So we will move to item number two, which is our capital budget. So who wants to carry the show on this one?

Larry:

All right. Well, thank you, Tim. This will be a combination of folks that will discuss the capital budget. On slide two are the various topics and the way we'll divide that up is I'll cover the first three, Ted will then cover from budget prioritization through treatment. Then Beth [inaudible 00:03:07] will talk about transmission and pumping. Prem and Ted will then discuss general plant. Ted will talk about the five-year capital improvement plan and then I'll wrap it up with the new budget categories and the summary.

Tim:

Larry, where there are so many categories obviously, I'm not certain how we should handle questions. If we should break it off as a category concludes, or if you think it would be better to record our thoughts and just review it in the end. What worked well last night?

Larry:

Well, it was a combination. Questions were asked as we went through the presentation, so we'd do a section and when there was a natural breaking, stopping point, the members would ask questions and then we had a final Q and A at the end.

Tim:

Okay, so I think that's a very reasonable format. There's fewer of us anyway here tonight, so we'll proceed on that format. So go ahead sir.

Jay:

Excuse me, Tim.

Tim:

Yes, sir.

Jay:

Are they going to follow the budget we have been sent and refer to what the pages are, because I don't have the zoom picture.

Tim:

Oh yes. In other words what you're saying, Jay is you're not able to view the short version of the presentation?

Jay:

That's correct. Yeah. If the introduction to the capital budget pages, 1 to 1A. If we follow the table of contents [inaudible 00:04:51].

Larry:

I think that's going to be a little difficult to do-

Jay:

Okay, but then whoever speaks is going to say what the... Content that they're speaking on for the budget? Yeah, okay. I can follow. Yeah.

Larry:

Well, let me try that. I'm up first Jay, and let me try to describe that enough. I'm not doing it in a manner that helps you understand, please interrupt me and let me know.

Jay:

Okay. Okay. Thank you for that. Yeah.

Larry:

So I just described the capital budget topics that we will go through tonight, which includes the history of the capital budget, the assumptions and a brief introduction, all of which I will cover. Ted Norris will discuss the budget prioritization, the natural resources' category and treatment. Beth [inaudible 00:06:03] will discuss the transmission and pumping category and Prem and Ted will discuss the general plant category. And then Ted, will talk about the five-year capital improvement plan. And I will discuss some new budget categories that we'll be using in fiscal year 23 and then I'll wrap it up in the form of a summary.

Jay:

Okay, I've gotten that down. Fine.

Larry:

So, the next slide is slide three, and this is a graph, a bar chart that shows the capital budget history from 1992 projected to the year 2026. And what it shows is the way the capital budget fluctuates each year, depending on what particular category of spending we were putting the most resources in. For instance, in the bar chart from the years, 2000 to 2005, when we were building the Whitney Water Treatment Plant, our treatment category was very heavily weighted, and so it was the largest category during that five-year period. If you move to the year 2008 to 2011, we were installing the SAP customer information system, and the expenditure during that period of time was higher for the general plant category to reflect SAP.

Larry:

Next is the year from 2016 to 2020, and in that particular period of time, we had an increase in the transmission and pumping category as we were putting in the AMI meter system. 2018 shows a spike in the transmission and pumping category because that was a year that we repaired the great Hill Tunnel. [crosstalk 00:08:25] And then 2021 shows a capital budget that's about 50% of the other categories, because that was the year that we reduced our budget by 50% because of COVID. It then projects from the year 2022 to 2026 as part of our five-year plan. And that takes into account the expenditures of the Whitney Dam, where there is a spike in the year 2024, which is the height of the spending for Whitney Dam. That's about $55 million... So that concludes that particular slide. Any, questions there?

Jay:

No, I'm fine with that. Yeah, that one flowed right along. Yes.

Larry:

Okay.

Jay:

Thank you.

Larry:

The next slide is slide 4, which is the capital budget assumptions and this lists the major assumptions for the budget for the fiscal year 22. So, the total budget we are projecting will be $42.9 million, which includes the base amount of 38.7 plus a $500,000 contingency, plus $3 million for spending for a department of transportation work, so that's DOT, and then we have about a $750,000 project in the technology area for putting in a billing system for our commercial businesses going forward.

Larry:

We're also saying that the fiscal 22 budget and the future budget takes into account the recommendation of the engineering firm GHD, in which they did a study a few years ago and looked at the various categories of spending and did a forecast audit of how much we need to spend in each category, and they recommended that we spend more money in the pumping and water mains, and our budget reflects that increased spending.

Larry:

We are also assuming that for the five projects that we will be bringing to the RPB in fiscal 22, that we will be able to successfully achieve approval where needed. Also, we have a capital budget contingency of about $500,000, which is a little larger than in the past where it's been about 1% of the capital budget, this year it's about 1.3%. But we did keep 5% for the individual projects, except for circumstances warranted a higher amount. Our Connecticut DOT work putting water mains in, in connection with DOT work will be self-funded and we're estimating that to be not greater than $3 million in fiscal 22. And finally our municipal redevelopment pipe and non-reimbursable DOT remains a funding item with slightly increased funding due to some additional projects in that particular category.

Larry:

Any questions?

Jay:

Yeah. Larry just under contingency is that the percentage of the formula for what you use on both budgets?

Larry:

On the capital budget overall Jay we've added a 1.3% contingency, and that is slightly larger than what we normally do, which is 1%.

Jay:

Okay. All right. You know, yeah. Because I was looking at that as well, because I think for the next two was 500 and 500 and then it escalate. Would it be prudent just to have the budget every year have a minimum of 500,000 and contingency.

Larry:

We have found that 1% normally works for a contingency and this year we increased it to a 1.3% because you know, we're starting The Whitney Dam, we have the West group of water treatment plant, and some areas that are a bit more uncertain. So, that 1.3% seems to work.

Jay:

Okay. Okay. No, I was just saying, it's nice to have the contingency to fall back on.

Larry:

Right.

Jay:

You know, going forward, to me, it would be prudent to look at it [inaudible 00:13:59] being at a minimum of 500,000, maybe.

Larry:

Well, we can take a look at that at future budgets and see if that makes sense to, depending on the other projects. But remember we're keeping the contingency for individual projects at 5%, depending on their stage of design.

Jay:

Yeah. Yeah. I understand.

Jay:

I think that's proper. Yeah. Yes. Okay. Thank you.

Larry:

All right, the next slide is an introduction to the capital budget. So, this slide is a summary slide by category and we are saying that we have 84 projects and programs or different categories.

Larry:

The natural resources' category which is $1.7 million and that's slightly more than what it was in fiscal 21 as originally proposed. The treatment category is 16.5 million and that is a significant increase, which we'll get into a little bit later in the presentation, and that compares to 9.4 million last year in the original budget. Our transmission and pumping category, which is a new category in which we've combined a transmission and pumping, that 16 million it's slightly less than what it was in fiscal 21. And then our general plant category, which includes things like vehicles our technology projects and things like that, that's four and a half million dollars and that compares to about 9.4 million last year And we'll explain the reason why that is smaller.

Larry:

So all of that adds up to $38.7 million rounded that compares to last year, that was a $38 million, so they're roughly about the same size. Contingency is 500,000 compared to last year, that was 400,000. State and redevelopment work with the DOT is 3 million. Our commercial business billing project is $700,000 and that compares to last year at about 300,000. So, this year we're projecting a total of $42.9 million, and that compares to a 41.7 million last year, or about $1.2 million higher.

Larry:

So, the next slide is still an introduction of the capital budget and it's an overview pointing out that in fiscal 21, we had reduced that budget by about 51% and deferred and delayed a number of projects in order to achieve that reduction. And that was so primarily we could fund the in capital budget entirely from our internally generated funds, so we could avoid a rate application last July in the middle of the pandemic, which would have become effective in January of this year.

Larry:

We are looking at applying for four state drinking water revolving fund financing's. And we have two that might be potential, which is the Lake Whitney Dam and the Lake Salt install water treatment plant electrical upgrade, so that'll give us a lower interest rate financing and the potential to receive grants. We'll also continue to work on our critical assets and facilities and putting them into our asset management plan through a software program we have called InforEAM and that'll help us prioritize the work on our critical assets and facilities. We're also taking into account risk, resiliency and redundancy considerations because last year we had a number of failures in the system and so that really sharpened our focus on reducing risk and increasing the resiliency of the system or having backups so that we can ensure a continuity of service.

Larry:

We also, this year for the first time, combine the pumping and transmission distribution categories because those are like assets and we thought it made sense to combine them. So with that, if there're no questions, I will-

Tim:

I have a quick question Larry, by reducing our capital budget last year by you said 51% and using internally generated funds, is there a net benefit in borrowing costs forward that we... I realize it's hard to measure a benefit you haven't really taken advantage of, but because of lowering rates that are out there, are we potentially going to improve our debt service costs? Basically with these up and coming projects.

Larry:

Yeah. Well, good question and of course it's all based on market timing and you know, we'll be in for a rate application in July to finance this year's capital budget that's not met by internally generated funds. We'll price that out probably... What Rochelle in October? November?

Rochelle:

Yep, pricing on the debt probably November, December.

Larry:

November, December. So it'll depend on-

Tim:

That is a function of timing, you said it would be hard to know.

Larry:

It absolutely is a function of timing.

Tim:

Okay. Okay.

Larry:

And of course we're always looking for refinancing, so my ears perked up when you said you've got like 0.9% on, on a refinancing, you did so...

Tim:

Yeah, I think it was actually 1.57 on the refi, that's what I remember.

Larry:

Well, that's better than anything that we've been able to get.

Tim:

It's phenomenal. We do have a AAA credit rating and we acted right on the time it was available so that was partially part of it.

Larry:

Yeah. Okay?

Tim:

Thank you.

Larry:

Okay. So with that, I'll turn it over to Ted who will run through our budget prioritization methodology and other items concerning the capital program. So Ted...

Ted:

Thank you, Larry. Good evening everybody [crosstalk 00:21:01] we'll make a slide number seven on the prioritization matrix, which is covered in the budget manual on page I six. As we have for the past, about 11 years, we have prioritized the new projects that hit the budget for FY 22. Also, as we have done in the past, there were a number of projects that were either continuing projects, core programs, or RPB approved projects. Numbering 35 this year that were not prioritized because they are either continuing core programs or RP vehicle products that are also continuing. So the prioritization matrix in our process for 22, we developed a list of projects that was prioritized based on the projects in the 10 year model that you saw last fall, that Rochelle presented. Something new this year was the separation of the infrastructure and technology projects into two majors.

Ted:

We did this because technology projects typically have a low ranking when ranked against infrastructure projects, which yielded an unrealistic ranking of the tech projects themselves. So we split it out this year and we think we achieved a better result. Also, new this year was the infrastructure projects were ranked in a meeting of 24 staff members, not individually as we have done in the past where individual rankings were combined and then come up with a summary ranking. This allowed for an open discussion of the process and the rankings, we have a ranking by consensus and we believe achieve a better overall ranking of the project. The same process was followed in the IT tech area where seven staff members reviewed those particular projects and ranked them as well. The leadership team is as most in the slide, but reviewed the rankings.

Ted:

We did not have changes this year. We have had in the past, but not this year. So that's the prioritization matrix or methodology that we've followed this year.

Ted:

Is there any questions on that?

Ted:

Hearing none I will move to slide number eight and begin talking about the projects in each categories. This is a page B one for natural resources. I wanted to note that... Jay you'll have to take note of this, but as we walked through the slides, the four categories that we'll be talking about... We'll be highlighting the most significant project in each one of the categories, but can certainly discuss any of the other projects in the categories that you would like to.

Ted:

In the slide deck, each line of the project has the duration, the FY 22 budget and the total amount in the five-year plan. For example, on this slide's stream flow regulation, the free flow regulatory improvements is a FY 22 through 26 project actually that's the entire five years. The budget for FY 22 is $150,000, $280,000 total for the five years.

Ted:

While we're on this one, these are for improvements that are required by the Connecticut DEEP in order for us to measure flows at certain Dam's where we don't have the capacity to measure those flows now. This is all under the stream flow regulations that were reported by DEEP. Talking about watershed protection, annual program of course you've seen that many times at $125,000 in FY 22 525,000 across the five years. The dollars, therefore FY 22 for the potential purchase of a piece of property in Durham, on our watersheds with some additional monies to fund, potentially beginning to review other purchases as well. The lake Whitney Dam improvement projects they actually began five years ago. FY 17 will complete in 25, $600,000 budgeted in FY 22 and a $40 million total budget for that project.

Ted:

We'll have a little bit more to say about that as we talk about the five-year plan and how it impacts that. But for the FY 22, we plan to complete the design, submit an application to the RPB most likely in early FY 22, and also complete permitting with the regulatory agencies, primarily army Corp engineers because this stamp falls underneath them and also put it out to bid. So we'll have a little bit more to say about this later on because it is significant to the budgets.

Ted:

And then finally on this slide, our tunnel that you see some of the abbreviations diversions, raw water main rehabilitations. Again, that's a program it'll be carried over the five years, $408,000 in FY 22, 1.4 million total over the five years. What we'll do be doing in 22 is assessing, reviewing... Excuse me I'll be doing program planning or reviewing assessment technologies. We're doing asset prioritization, and then also the majority of the funds are for work at three rehabilitation work at three of our diversions that feed into our drinking water reservoirs.

Ted:

There aren't any questions on the natural resources section?

Ted:

Moving to slide number nine under treatment, which is in page B six in the budget manual. The treatment budget in FY 22 is about 16.5 million for 22 projects and programs at the Lake Lard water treatment plant about $2.8 million total in all the projects. The highlight project is our clarifiers and recycled building improvements. FY 21 through 24, $306,000 in 22 to $4.25 million total. We're bringing this one to the RPB, one of the five topics that Larry talked about coming for approval of the RPB and this replaces the clarifier equipment that has reached its useful life. It was installed over 30 years ago and also replaces some of the recycled pumps in the recycled building. Lake Salt saw about $2.4 million total for projects 22.

Ted:

Electrical upgrades for the new project coming on... actually it's a continuation, but just started last year with gov blade cause of COVID FY 21 through 24, $300,000 in 22, $3.8 million total. That's another one that we'll be bringing before the RPB. Likely this will be combined with electrical upgrades at the lake, The Lard water treatment plant when we bring it to the RPB. The improvements are for replacement of the switch gear as well as new electrical service and VFDs on the distribution pops in order to optimize electrical efficiency.

Ted:

So a lot of work, this is aging equipment. Again, the Salt Plant went online in 1974. So, a lot of the equipment is aged now, some of it has been replaced, but now we're in no cycle replacements out there. At Lake Whitney water treatment plant $680,000, so for continuation of project that was started, but stopped because of COVID for HPAC improvements, dehumidification and the nitrogen boost system improvements, and then the nitrogen boost system as part of the ozone treatment system that we have at the Lake Whitney plant. That project will complete in 22, $608,000 and the total project is 765,000, as you can see on the slide. The Westborough Water Treatment plant 7.3 million, this is for the improvements project that was approved by the RPB in March $7 million of that 7.3.

Ted:

Approved by the RPB in March, $7 million of that 7.3 is for that project in 22, another 7,000,023. And that's a $16.3 million total project that has [inaudible 00:29:12] just approved it, so that we look forward to getting that project going. And then the Well Field improvements, about 3.3 million over the spread of all of the Well Field, South Central Well Field improvements will complete in 22 as we started then stop with this COVID. Another one, a $1.7 million in 22, $1.8 million total. And that's for the rehabilitation of the chemical feed systems, including phosphate, fluoride, and hypochlorite. Are there any questions on the treatment projects? Then I will turn it over to Beth. We'll talk about transmission and pumping.

Beth:

Great. Thank you. And for everyone, we're transmission and pumping starts on page B-20 of your budget book. We have approximately $16 million of projects in this category, projects and programs. I'm going to quickly run through our annual programs or items that you see in the budget every year. These are items that we... Management feels as we must do to ensure that our infrastructure continues. The reinvestment is necessary. First up is our state and municipal pipe program. This, as Larry mentioned, includes our State DOT Fund, which is a revolving fund. It also includes some municipal projects. We have five after active projects next year in a variety of towns. So for over the next five years, we have just over $19 million in this line item. For Capitol pipe: this again is an annual program. Next year we have just under one and a half miles over five towns.

Beth:

We've replaced pipe due to main break data, as well as water quality or fire flow enhancements. So three million for next year with a total of 16 million over the next five years. Service connections: This is a budget again every year where we replace leaking services, where we identify issues between the main line and the curb bowl, average is about two million a year. That's what we budgeted for next year and 11.4 over the next five. Valve replacements: This is for inoperable valves we find in our distribution system as well as critical valves that we use to maintain pressures in the system. So we budgeted 300,000 for next year, and 1.4 over the course of the next five years. Meters: We have $715,000. This includes meters to complete our AMI installs, those remaining 5% of our meters we're trying to gain access to that our crews are doing, as well as large meters, replacement of those meters.

Beth:

And then lastly, hydrants: To replace through Brogan Hydrants. And throughout that we own totaling about $125,000 next year in $625,000 of the next five. As Ted mentioned, we do have some large projects within this category that we're going to highlight. One of which is our Northern service area expansion project. This is to run distribution main up Route 10. It is a multi-phase project. Next year, we have a budget of $1.8 million with a total of 12 million over the next five. It's about 2000 feet of main enhancing. As Larry mentioned, our focus on risk resiliency and redundancy. This will provide some more resiliency to our Northern service area by allowing us to use surface water to service those customers. The next one is our stance for service area improvements of our East-West transmission main, again, a multi-year project, $200,000 for next year, total of 400,000.

Beth:

This is to review capacity issues where we're trying to move water. If you remember, in some of our risk presentations from North Branford to Milford, we have known improvements we can make from a hydraulic perspective. So this will help fund that. Ansonia Derby tank, a large project for us, we have slated 2.7, $5 million in next year's Capital budget, totaling 5.1 over the next few years, as most of you know, we are awaiting the court's decision on the petition that was filed so more to come on that. But we are hopeful that that project will move forward over the next few months [crosstalk 00:33:32].

Jay:

Are those women still challenging that?

Beth:

So they filed and Ted has a lot more of the details, but they did file, the court ruled in our favor back in January. The opposition did file a petition to be heard and wanted the court to review their decision. So they had 120 days, I think. Ted, what's the deadline on that decision?

Ted:

I don't have the exact date, but I still think it's about a month and a half.

Beth:

So that's the latest on that. Next step is our critical pump stations and transmission facilities program. This is $350,000. This is to make improvements for our pump stations and other critical facilities that we have to move water pulling 4.9 over the next five years. And lastly, another project that you've probably heard me talk about is our Spring Street Pump Station. This is in West Haven and we have a slate of money to start design next year of $300,005. And the project is estimated today at $9.4 million. That's just the highlights, happy to answer any more detailed questions regarding that category. And hearing none. I'll turn it to Prem.

Prem:

Thank you, Beth. So a General Plan category again, if anybody is looking at the book. Jay, I guess you're looking at Capital, but in the manual it said B-29. That's where I think it starts. For the General Plans category like earlier, Larry kind of made some comments about 9.4 million had been reduced to 4.5 based on COVID constraints and budget constraints that we have. As you know, we've been kicking the can down the road for ways technology projects and a couple of products, we've been looking at that. We also want to be mindful about not have big ramp spikes. So we are trying to normalize that as Ted has mentioned earlier, so that being said, we have four and a half million dollars for FY22 projects that are going for products and programs. SAP enhancement pack, as you are all aware, we had the initial implementation in 2008.

Prem:

We haven't really done anything after that in terms of our breed, et cetera. So we're looking at doing an SAP on a breed. So we have a small a dollar for next year, which is $250,000 to start with an RFP and an RPB application. We'll be looking at late Fall to kind of go into that a whole lot RPB application. We're looking at an estimate of two and a half million dollars for the year of the project. And obviously, more to come on that. Innovation projects, as you know, when I got on board, we talked quite a bit about process improvements, [inaudible 00:36:19]. We established as a team four different, we call Center of Excellence, like needed to cash. So it was to consumption, recruit-to-retire and procure-to-pay. So we look across the organization for process improvements to do things better.

Prem:

So as part of that, we have put in some endowed numbers, for example, we are implementing a multi-channel experience for our customers. As you know, mostly we use direct mail and the contact center. So now we're looking at other areas like customer portal, a mobile application deployment, et cetera, from a meter-to-cash perspective. We're also looking at doing some process improvements on automation. That's been another big learning AI. So there are small dollars. And as you know, they're looking at a kind of potential plan. So you see the years going all the way out between 30. It's incremental improvements, focusing more on process improvements across organizations. So, that's that project. It'd be monthly billing, as you all know, we have been actively working on the project right now. The good news is that if you remember, we had a 1.8 million for the estimate, the team's had gone through a lot of, vendor selection.

Prem:

We reduced a lot of dollars in terms of capital on that specific project. It has come down quite a bit to 1.35 and obviously we're going live in Jan 2022 as you recollect. The team is actively working on that specific project. Cybersecurity enhancement, as you know, there's been a lot going on out there, especially to cybersecurity. We have engaged with Blum Shapiro for a cyber assessment for our scanning network and all our corporate network. As soon as the assessment is done, there'll be recommendation coming out of that specific work. We really want to make sure that our infrastructure is secure. So we'll be putting some dollars with the recommendation of all the DHS, EPA and OCA, et cetera. So we'll be looking at doing some of the work in the cybersecurity space.

Prem:

For GS ADL mapping, this is directly coming off of the actual, I think, for that [inaudible 00:38:25] we have just Shad and Walcott. It has a lot of good to kind of do that aerial mapping. It reduced the budget quite a bit, almost 40% of it. I can mention that the one 130K comes directly off of the actuals that we have from our current vendor Robinson. So that's, that's part of that project. System and RTU, this is for our SCADA network for our distribution system. It's a multi-year project. As you remember, we started off in 2018, they're looking to wrap up the project. It's the last piece of the project we're trying to finish up. So far the team has been actively working on it and we're target budget, on schedule. We'll be wrapping up the project in fiscal 22. Last one I have here is the Fleet VACo, but before I hand it over to Ted, are there any questions from any of our team members here? If not, Ted, I would hand it over to you please. So you could run through the details on feedback.

Ted:

Yep. Thank you, Prem. Fleet is an annual program of a vehicle replacement. Planning $400,000 in 22 for the replacement of seven vans and small trucks. Three about $3.4 million of total over the five-year budget. These are vans and trucks or vehicles in general that have reached the replacement criteria of 125,000 miles or 6,000 hours criteria that were recommended by GHD back in 2017. There're no questions about that. I'll move to the next page. Next slide number 12. And this is begin the five-year category, which begins in the manual at page P-one. And what you are looking at here is a bar chart that shows each of the five years in the five-year plan. 22 through 26 on the top of each chart is a number in black. That's the total amount of the budget in that particular year.

Ted:

Each bar each year has four colors on it. One being natural resources in blue, treatment in orange, transmission and pumping in green, and then general plant in a kind of a yellow color. And we really liked that story that this slide tells because it's easy to see where the larger projects are coming in and what our budgets are doing over the five-year period. So for example, in FY22, we see a significant, and 23, see significantly higher than normal expenditure in treatment. Treatment is normally 15 to 25% in those years, 43 and 34% respectively. And that is result of the project I talked about, which is West River water treatment plant improvements projects. That's $16.3 million project we talked about. Thereafter, treatment goes back down to near normal levels. In 23 through 25, you see the increase in blue, the increase in natural resources, almost entirely due to the Lake Whitney Dam in those years, between 21% up to 35% in 24 in terms of expenditures on that project.

Ted:

In 25 and 26, you see an increase in expenditure under transmission and pumping related to projects Actually that Beth talked about. One is the construction of additional storage, either at Lake Lard or close by within the system out there. We know for years that the Lake Lard storage is not adequate in terms of what we need, in terms of response time. If the plant goes down, we have very little time to be able to do anything before we run into issues with supply. So that has been kind of a thorn in our side for a long time, we really needed to finally take care of it and do something with it. Also, additional storage is needed in this system anyways, in that area. Also, part of the project that actually I did talk about is the Northern service area and transmission main. It's really kicks in at 25 and 26 in terms of expenditures. So that's the course of the numbers over the five years, highest number being almost $55 million in FY24.

Ted:

Are there are questions regarding the five-year plan? And then moving on to slide number 13, which is the Lake Whitney water treatment, excuse me, Lake Whitney Dam. The discussion of that is back on page B2 in the budget manual. So at $40 million, a day of project has a significant impact to the five-year budget. We are expecting to start construction in FY23 and end it in FY25. Expenditures are in the chart there that you see between 22 and 26, but more interestingly off to the right, is it chart that shows only the dam expenditures at blue as compared to the complete budget expenders in that particular year. So we can see that next year it's only 16%, $600,000 in 23 is 21%, 34% in 24. So over a third of the budget will be for the dam project and in 25, about 18%. Which is, again, a significant amount of money, but this is a project that needs to be done.

Ted:

The dam was built in 1860. It does not meet the current criteria for stability or a passage through the spillway of the desired storm. So these were significant concerns that we are going to be addressing with this particular project. We are looking of course, at cost control activities and methods. One of them we're looking at is alternative delivery methods. What that means is we typically deliver a project by designing it, bidding it and building it or DPP. You've probably heard that acronym. That's our standard way. There are alternative ways that can be more efficient and reduce risks as well as potentially reduce costs. One we are keying in on for this particular project is called the construction manager, a general contractor or CMGC method, where we bring a contractor on fairly early in the project to work with our designers as they move along.

Ted:

So that the contractor is saying, "Yes, this is a good way to do it. No, not necessarily a good way to do it. We think it can be done better this way." So you're doing that all the way along and reduce the risk. The CMGC model, the construction manager was working along with the design. I will submit a price later on in the project when it gets to be near final design. If that price is acceptable, then we will move on and award the GC that project, because we've already gone through the RFP process or RFQ process with that contractor to begin with. If the price is not acceptable, then we will put it out to bid and that is considered an off-ramp in the contract that we'll have.

Ted:

So we are looking at that. We're actually right in the middle of looking at that right now, we believe that May could potentially have some really good benefits for the project, particularly in reducing risks. This project has a lot of risks in it as any large dam product does, this one in particular would be some of the attributes of the project. The other thing we are certainly going to be doing is value engineering, other project that is actually part of the CMGC process. We bring out a contractor, that's how value engineering occurs. If not, we will then move back to a typical evaluation, where we're bringing in a consulting firm who will hire a contractor or two was done dams, and they will review the project as it goes along. So a significant project that absolutely needs to be done. Now's the time to do it in order for us to continue to meet requirements that are mandated by us to kind of get deep at army corp engineers.

Tim:

May I ask a question, hopefully not cutting you off, but in particular about this project, it's obviously a rare project for us to fix the dam. I guess we've done it obviously, but this is a significant one. How comfortable is everybody with sort of the plan? In other words, its duration. Obviously, there's a lot of intended risk, there's a lot of intended costs, but there could be a lot of unintended consequences. Is your timeline... What's the comfort level with the timeline and what are the contingencies in a risk that it could go longer than that, just the financial burdens? And then my other question would be how many firms actually do this sort of work? Is this mobilization that takes place across the country and it's no big deal or is it sort of a specialty? It seems like a specialty to me.

Ted:

Yeah, it certainly is Jay. To answer your first question. We're very comfortable with the timeline that we have here. We've reviewed it with the design engineers. We have a lot of experience in dams. It not so short that we are forcing a higher price by compressing the schedule for it. We have three years planned for construction, and we don't believe that putting it out longer than that is going to benefit the project. Even though we could spread the dollars more, of course, but it's not going to benefit the project. If you keep a contractor on longer than is necessary by saying, you're only going to be on this fast, you're going to incur additional costs there as well. So today to answer your question, we have looked at this very up and down and believe that this is the right timeframe for the project in terms of risk.

Ted:

Actually, the second part of the question you asked was in terms of how many firms do this. There are a few in Connecticut that do it, actually one or two in Connecticut that do it. There are several in New England. And then once you get into the greater Metropolitan area in New York, there are more that do it. Likely we would not get somebody who is out in the West Coast or even Midwest to mobilize for this project. But there a large enough field in our region to be able to do this, but this is not something that we expect to see high Connecticut firms bidding on. That's probably not going to happen.

Tim:

Okay. For the record, that was Tim Slocum with those questions. No, that's quite all right. No, I know it's one of those Zoom things and the records matter. Okay. Thank you for that. And I, I would hope a project like this wouldn't be delayed per se. I guess my concern was that it could be delayed and I guess that's sort of built into your projections.

Ted:

Correct. Thank you.

Tim:

Thank you.

Ted:

Is there any further questions about the dam project?

Mario:

This is Mario Ricozzi. How are you? This is obviously a big one. So just a couple of things. You mentioned the value engineering. Are you doing it at... What percentages are you planning the value engineering?

Ted:

So we're at about 45% complete with design. Now's the time to start doing that. So we are planning... If we get the CM on board, we will certainly do, that'll be actually the first step in CMGC method, is the value engineering. If we're not going to go that route, then we'll get somebody on a team or relatively quickly in order not to have value engineering occurring at the 60, 70, 80% level, which is where you do not want to be doing it.

Mario:

Right. It cost you way too much. So with the alternative delivery methods, have you reviewed those with Department of Public Health and have they approved projects that way in the State Revolving Fund? Typically, the EPA doesn't like anything that is out of the design bid build.

Ted:

Right. Actually we have submitted the project to Connecticut DWSRF. This is a project that is typically outside of the scope of DWSRF. They usually do not have dam projects included that as part of the EPA, our requirement, that they don't necessarily do dam projects. They are looking at... Actually DPH has another dam project they submit it to them. They are looking at that one and they will be looking at ours. We have discussed alternative delivery methods with DPH and they are considering that Mario, we do not have a final answer from them yet.

Mario:

Okay. And was it also submitted under the Stimulus Funding Package?

Ted:

The federal package?

Mario:

Yeah, which goes through DPH also.

Ted:

I'm not sure which one you're talking about there Mario.

Mario:

Yeah. I think the Federal Stimulus money is going to run through either the DEP or DPH.

Ted:

Yes. The new money coming out from the Biden Restoration, that's right. But we anticipate that going through a Drinking Water State Revolving Fund.

Mario:

Did you submit an application under that in case they don't like it under the traditional State Revolving Fund?

Ted:

Well, we submitted an application to DPH under Drinking Water State Revolving Fund. That was the one I was just talking about. So we're already in.

Mario:

And that covers both. Okay, great. So the design portion is not part of the Drinking Water State Revolving, correct?

Ted:

Correct. The construction costs are.

Mario:

Okay. Thank you.

Ted:

Any additional questions on the dam project? All right, well I'll turn it over to Larry. He began talking about the new budget categories. Larry you're on mute.

Larry:

Thank you. As I was saying, you recall, we have four budget categories that we have reviewed with you in the past, which is natural resources, treatment, transmission, and pumping and general plan.

Larry:

We are proposing to recategorize our expenditures into five different categories that are shown here, and this depicts how much money would be in the five-year Capital Plan. So the largest category is Capital Renewal, and that's shown in the left-hand corner and is about 53% of that particular pie chart that is being shown and has about $124 million in that expenditures over the next five years. And that includes things like water treatment, plant work, pumping programs like meters, hydrants, service connections, and pipes. So that's Capital Renewal that would be in that category and is the largest. The next largest category to the right is regulatory compliance. It's about 26% of the pie chart and would be about $61.3 million over the five years from Fiscal 22 to Fiscal 26.

Larry:

Regulatory compliance contained such things as the capital work that we would have to do to comply with, for instance, the stream flow regulations or work on dams to ensure that we're in compliance with dam regulations, the improvements in our west river water treatment plant in order to reduce disinfection byproducts, which is a water quality standard under the Safe Drinking Water Act. Moving up the pie chart, the next largest category would be long-term planning at about $27.1 million.

Larry:

That's about 12% of the pie chart. And that would include things like investments to meet future water demands, achieve a certain level of service, like including pressure in an area and ensuring that we have our water quality standards, which would be things like watershed protection, installing capital pipe to eliminate dead-ends and water storage tanks like the Derby Water Storage tank. The next largest category would be technology at 13.4 million over five years or 6% of the category. And technology would include things like enhancing, renewing and replacing technologies for better customer service efficiency or security in the system. That would be things like enhancing our SAP software, installing monthly billing to our customers, cybersecurity, hardware replacement, and the like. The final category is Growth, which is about $8 million over five years, or about 3% of the five-year capital budget. And that would be things that would be designed to increase revenues or expand our service territory.

Larry:

And that would be like running the water main up Route 10 that Ted described our SAP improvements for customer service in that category, excuse me, in our customer products there. So those five categories we have implemented because we think it gives us a better way to define the drivers of our budget and how we're going to allocate funds and if we need to make cuts. It gives us a better idea of what the impact is going to have on key drivers that we have to take into account, in order to manage and plan the operation of the utility. Any questions on the new budget categories?

Jay:

Larry, Jay again, please. My non-core income, would that be in number five?

Larry:

That would be in the Growth category. That's correct.

Jay:

Okay. All right. Fine.

Larry:

It's made to non-core income.

Jay:

Yes. Okay. Thank you.

Larry:

Okay. Are there any other questions? Okay, we'll go to the last slide. Slide 15, which summarizes our presentation. So the budget managers...

Larry:

We, the budget managers, have worked very hard with the leadership team to ensure that the budget incorporates funding for those essential infrastructure projects, taking into account risk, resiliency, and redundancy. It was thoroughly vetted by the capital project control team, the project managers and the leadership team. We have looked at those large projects that are out of the norm and to ensure that they were thoroughly vetted, such as in the case of the Whitney dam. We will be applying value engineering to those. We will continue to pursue alternative financing through either the State Drinking Water Revolving Fund or through the Biden Administration Infrastructure Bill that that is coming out.

Larry:

In either case, that would be a chance to receive low interest financing or grants. We are taking into account the recommendations by GHD in terms of where we should spend the money by the various budget categories, and those will certainly be reallocated to the five new categories that I outlined. We're continuing to develop our asset management program in order to determine lifecycle costs and when assets should be replaced versus just through normal maintenance. So that asset management plan will be a continuing part of our capital budget moving forward. So with that, we'll be glad to take any final questions that you might have.

Jay:

I want to say, I just want to recognize Larry and the whole management team for the presentation that has been very comprehensive and concise, especially having to have all of us live with the last year, a year and a half of this pandemic. Well done to the whole team. Thank you.

Larry:

Thank you, Jay. The team did a really great job, not only preparing the budget, but also the presentation to summarize that. So thank you for the kudos. They did a great job.

Tim:

That is certainly the truth.

Tim:

Thank you as well.

Larry:

Okay. If there's no questions on the capital budget, we'll move into the operating budget. This is the agenda for the discussion topics, and the way we'll divide this up is that I'll provide an overview, kind of a recap of our financial position, which are some of the action steps that we've taken to deal with the COVID-19 pandemic, discuss our reserve balances, which are very healthy, and then talk about our capital funding sources, which there's been a tremendous shift over the years. That we'll discuss. Rochelle will then take it and review the fiscal 22 operating budget. I'll provide an overview of that, look at the revenue and expense trends and assumptions, and then the review of the maintenance test, discuss the opportunities and vulnerabilities that we might face in the next fiscal year, and then I'll provide a summary of the budget at the end.

Larry:

So if we can move to slide number three, this is an arrow, Jay, that that shows, and those that are on the phone, that shows the four different strategies that we took into account to deal with the COVID-19. It was a multifaceted approach to deal with the pandemic. As previously mentioned, as you know, we reduced our capital budget by 50%, which was no easy feat in terms of sorting through those projects and deciding which ones would be deferred or eliminated from the budget. Many of those got shifted into the outer years of the five-year capital plan. But I think in looking at the capital budget, we've leveled that out appropriately over the next five years. We also reduced our operating costs by about $4.9 million in order to take into account the projected lower cash collections, and to be prudent.

Larry:

We also, as you know, eliminated through a program of shared sacrifices, we eliminated merit increases originally for the non-union employees, any bonuses that would be paid out. So despite that elimination of those merit increases in bonuses, we've been able to keep our O&M expenses at a lower level, even with reinstating those sacrifices. So, that's been positive from that standpoint, and of course the lower projected O&M budgets that we currently have in fiscal 21 is key to being able to meet our coverage requirement without a shortfall. You'll recall that we originally projected a $12 million shortfall, and that has now been reduced to zero with a projected coverage of 118% at this point. Finally, at the end of fiscal 20, as we were ramping up for the COVID-19, we transferred $5.5 million into the general fund, which gave us not only additional money within our fund balances, but also gave us maximum flexibility because we can use that money for any lawful purpose.

Larry:

So if there's no questions on that slide, we'll move to the next one. This is a picture of our reserve fund balances that is in the various funds that we have. It shows both those that are discretionary, such as the rate stabilization fund, the growth fund and the general fund, as well as those that are required under our general bond resolution, such as the capital contingency fund, the debt reserves fund and the operating fund. All told, those funds, including surety bonds, add up to $124 million. That takes into account the five and a half million that we put into the general fund, as well as the $750,000 that we transferred into the growth fund to be used for some capital projects related to our commercial business. So despite the pandemic, our discretionary fund balances are very strong and we are in compliance with the general bond resolution and with all of the required fund balances.

Larry:

So I'll move there, if there's no questions, to our next slide. This is a slide that has set to actually four different bar charts. The key takeaway on this is that our sources of capital enabled us to postpone a rate application. So the two bar charts on the left show our capital funding in 2009. That is shown in all blue and that all blue represents debt financing. So in 2009, we were financing our entire capital program by using borrowed funds. Fast forward to fiscal year 21. As you can see the vast majority, probably close to 90% of our funding, is from our internally generated funds. The pink fund there is from our state and redevelopment funding. Then the light blue is from the grants, excuse me.

Larry:

So we've changed our capital sources dramatically in the last 12 years, and what that has enabled us to do is to decrease our debt leverage. So on the right hand side of this slide, we have two bar charts that shows in 2009, we were close to about almost 96% leveraged, and over the 12 years we've been able to reduce that debt leverage to about 85%, which interestingly enough, in our ten-year model update last year, we had shown that the debt leverage would be reduced by those 10 percentage points, not until fiscal year 2030. So we've been able to be ahead of schedule in reducing our leverage. We projected that that will continue to go down even with the larger projects that we have anticipated, because we will add to depreciation every 18 months when we go in for a rate application. Of course we'll be seeking grants as well.

Tom:

Larry.

Larry:

Yes?

Tom:

If I could, I don't think it's any coincidence that in 2009 that allowed you to embark in the position you're in now with the regional water authority. So it's just a remarkable change in course relative to this operation. So I want to commend you on that.

Larry:

Well, thanks. Thank you. But I have to say, Tom, as you know, this has been a real team effort between the authority, the representative policy board and management by allowing us to make key changes such as including depreciation in our rate applications, which is a way to generate the internal, also increasing our coverage from the original 110% to 114%. So it's been a real strong team effort, and that has enabled us to paint the picture that we have today. So thank you and kudos to everyone. So if there's no further questions on that, I'll turn it over to Rochelle who will discuss our operating budget, kind of an overview of the budget for fiscal 22.

Rochelle:

Thank you, Larry. Jennifer, maybe for those who are on Zoom, maybe you can reduce the slide size a little bit so the whole slide shows for the team. Thank you.

Jennifer:

Everybody see that?

Speaker 7:

Yeah.

Jennifer:

Okay.

Rochelle:

So this is fiscal 22 operating budget at a glance. I'm going to get into it in a little bit more detail as we go through the rest of the presentation, but I do want to highlight a couple of points. One of the key points is that we did assume for fiscal 22, that this is a back to normal as far as any impacts from COVID. So that is a key assumption. The other key takeaway that we want to share and are pleased to share is that you might recall that when we did our 10 year model update, we presented a target scenario and that targeted scenario had O&M expenses of about $59.8 million. That actually, in that scenario on to get to that number, we had actually assumed on some use of the general fund. So we're really pleased that we were able to get the O&M to $15.7 million without using any of the general fund monies. Again, I'll get into that in a little bit more detail.

Rochelle:

Other key assumptions on this high level is our fiscal 22 budget does incorporate monthly billing. Our original fiscal 21 budget did it as well, but our revised budget, when we adjusted our fiscal 21 budget due to COVID, we did defer and postpone the implementation of monthly billing. Also, this budget does not include any impacts of our rate application that we do plan on submitting in the very early part of fiscal 22. We are anticipating, should the application be approved and we are hopeful that it will be, that with that rate relief, that we should be able to offset the projected shortfall for fiscal 22. So again, this is just a high level depiction. One other point, I'll just mention the other expenses here, which do include depreciation in PILOT, the primary change from fiscal 21 to fiscal 22 is due to the assumption that we make relative to our PILOT payments.

Rochelle:

So, if there's no other questions at this high level, I'll begin to get into the details. So Jennifer, if you go to the declining consumption. We just want to show this chart. You've seen this before, and Jay, for you, this is our chart that we show going back to 1999, our consumption year over year. We do anticipate that this declining trend will continue at least in the near future. I do want to mention, you see here that there are years that you're over or under the trend line, but the trend line is a little over a 1% decline. What we did for developing the fiscal 22 budget, because we knew that our fiscal 21 bill consumption was definitely influenced by COVID, especially in the residential class. So we did estimate what those impacts are. After we did that adjustment for those anomalies, we reduced our consumption assumption by 1% consistent with what we've done in prior years.

Rochelle:

With that, I'm going to move on to the revenue assumptions and Jay, in the budget book, I'm going to talk to what's in a little bit more detail on pages five as well as on pages 10. So this is really our key assumption. So similar to what we've done in prior years, we look at what the bill consumption is and then we make an assumption regarding how that bill consumption converts to cash, because this is the budget that we're sharing with you is under our general bond resolution where our revenue is basically cash in the door. I mentioned for bill consumption, we made an assumption of a 1% decline after adjusting for our estimated impact due to COVID-19 and other anomalies relative to customers. Since our increasing customers is very minimal, maybe roughly about 200 customers a year, we did not make any assumption for customer growth. As I mentioned, we assumed existing rates and charges for this budget submission.

Rochelle:

Relative to monthly billing, just want to talk in a little bit more detail. We assumed the conversion of monthly billing and we assumed it on what we call a big bang. What that means is that all our customers are going to convert to monthly billing in the same month. There was a lot of discussion with the project team and the vendor and we're comfortable going with a big bang approach. That does result in a one-time upside that won't be repeated in the subsequent years.

Rochelle:

The other thing that we built in, some members of the RPB as well as members of the authority participated several months ago in discussions that we had as well as actually, Jeff, the OCA also participated in those discussions and how we were going to handle a fire service. So at the same time that we convert to monthly billing, we're going to switch for what was the New Haven district for their private fire billing. That's going to go from in advance to in arrears. ADA private fire is going to convert to monthly and for public fire, the ADA towns are going to get billed consistent with the New Haven district towns, and that's going to be semiannual.

Rochelle:

So we did incorporate all those adjustments. Our uncollectable factor is the same as what it was in prior years in our business as usual budgets. So that would be consistent with their original, but not a revised fiscal 21 budget. So, that factor is 2.25%. We did get a little more aggressive in this budget with what we're assuming as far as cash outs here. We did look back at what we have gotten as far as collections on age receivables in prior years. We looked even at what we're doing relative to fiscal 21, that we were comfortable increasing that assumption from our usual $1 million to $1.3 million. So it is being a little bit more aggressive than what we've done in the past.

Rochelle:

If there's not any additional or questions regarding the key revenue assumptions. Jennifer, if you can go to the next slide, which is our revenue attribution, and this is really a walk from here's what our fiscal 21 water revenue budget was. This is depicting the original budget and how we go from that budget to our fiscal 22 budget. Really here, the key driver is our assumption of that 1% decline. Off our wholesale, unfortunately fiscal 21 was the last year of the reservation fee that we get under our agreement with Connecticut Water. So that's $75,000. So that won't repeat again in fiscal 22 and beyond.

Rochelle:

Then for the pay as you go wholesale customers, we did also assume the 1% reduction, and so those are the drivers there. Outside one year I mentioned, again, we were a little more aggressive and we increase that by $300,000. For fire [inaudible 01:18:57] and how the conversion of the change in timing that I mentioned earlier compares to what we had assumed the year ago, that's roughly a $20,000 change. Then there's just other minor net changes. That's how we get from the one 1172 to the 1166, and that's roughly a $600,000 reduction. Again, this does not include any impacts from an approved rate application.

Rochelle:

We go to the next sheet. For fiscal 22, we were looking back is comparison to our original budget, our revised budget, as well as our projection. This just shows a walk from the revised budget. To really keep it simple here and to maybe refresh what we did to adjust our budget for COVID, we actually had made a total of a $15.8 million adjustment to the revenues. That included the [inaudible 01:20:02] of monthly billing, it included an estimate of what impacts would be on consumption, and it also included, if you recall, a very significant reduction in the cash collection assigned for the period of June through December.

Rochelle:

Our original budget did include a back to normal, and even our revised budget included a back to normal in the January timeframe. So after you do that $15.8 million adjustment, the other variances are pretty comparable to what I just walked through the client in consumption wholesale outside of here, some other minor changes in fire service and other net changes. So this is going from our revised budget of $101.4 million to the same $116.6 million. If there's no questions here, I will go into the expense trends. But if there are questions, I can stop and any answer questions. Okay.

Rochelle:

Here you'll see the key components of our O&M budget and Jay, for you, this is referenced in the budget book on pages four and five. A summary is on page 15, and then some of the details that I'm going to get into are actually on pages 16 through 22. This is really just talking through the key categories at a high level. One of the changes, and also to be a little bit more aggressive and less conservative in the fiscal 22 budget, was the change that we made in payroll. What we did incorporate in fiscal 22, is we did build in a vacancy factor, and we did this because we looked at what our current head count is. Our current head count compares to our fiscal 21 budget, and we are pretty significantly under head count.

Rochelle:

So it would be appropriate to build in a vacancy factor because we're not going to go from our current level right up to the target level in one fell swoop. It's going to be over time and there will be some attrition. So as we're adding a few positions filling vacancies, there's also going to be some attrition. So we did build that in, and again, that's been a little bit more aggressive than we have been in the past.

Rochelle:

For employee benefits, that's a category where medical expenses are included. The pension and OPEB contributions are included. Those are probably the key drivers of that category. What we did with the pension is our fiscal 22 budget represents the actuarial contribution for the pension plan. But because of our position in fiscal 21, what we're doing, and the authority board just recently approved, we are going to make an additional contribution in fiscal 21. So that additional contribution in combined with the actuarial requirement in fiscal 22 will help keep us on our path, get to the fully funded level by the end of fiscal 25. Again, there's a lot of assumptions. So that assumes that all the assumption stay the same, but that was one of the adjustments that we made in our fiscal 22 budget. Again, just because we are incorporating into our budget, just the actuarial required contribution, it doesn't mean that if we do well in fiscal 22 that we won't be able to make an additional contribution towards the end of the fiscal year.

Rochelle:

The other thing I mentioned about medical. Medical is one of the expenses that is definitely estimated because we all are self-insured, but the other factor that came into play, and we got guidance from the firm that we work with that provide medical and dental expenses, is they also had to make an adjustment for COVID. Which is, again, an estimate because we have seen and other organizations have seen that their medical expenses in fiscal 21 are actually lower due to the impact of COVID and individuals not getting elected or more discretionary medical procedures. So I just wanted to mention that.

Rochelle:

Outside professional services, we have used the categories that we used in prior years. So we're breaking out this expense category with business requirements, specialized expertise, project related, and technology related and regulatory [inaudible 01:25:13] similar to last year's is its own category. I'm going to get into this particular category in a little bit more detail later on in the presentation. Maintenance and repair. This is where routine maintenance and repairs are included for refurbishment projects and rehabilitation projects that extend the useful life of our equipment or infrastructure. That's actually part of the capital plan. We do believe that our fiscal 22 budget reflects a focus on required maintenance and repairs. We proactively indicated to budget managers that we really wanted them to submit required needs and repairs and not to defer or not to submit needed expense our requirements in that category.

Rochelle:

Moving on to the next page. These are also additional categories that make up a key component of our overall budget [inaudible 01:26:21] power. This reflects our existing contract that we have for generation pricing. You might recall that in December of 2019, we did it enter a four year contract for renewable green energy, and we were able to do that by keeping our generation pricing flat. Our budget does assume, however, that there's going to be a price increase in distribution pricing and that's an estimate. Income power as well as the other categories were electric service costs come into play. We do reflect the optimization that was done in prior years. For IT licensing and meet...

Rochelle:

... prior years. For IT licensing and maintenance fees this is where all our hosting costs are, all the annual maintenance fees for SAP as well as our several other software applications. You'll see that a main driver the fiscal 22 budget increase in this category has to do with the additional costs associated with technology projects and we do also build in anticipated annual increases in the fees. GNA in fiscal 22 it is higher than in fiscal 21. Key drivers here are computer and iPad purchases, licenses and subscriptions, our recruitment which is higher than fiscal 21 budget but consistent with our fiscal 21 projection and other small net changes. This was just to provide some insight into what's actually in these categories. In the next slide, you'll see a graphic depiction of our budget versus our original budget.

Rochelle:

So, we're actually pleased that overall, our proposed fiscal 22 budget is actually $1.3 million less or 2.1% less what our original fiscal 21 original budget was. Key driver here as I mentioned, we did build in a vacancy factor and payroll. So, payroll is actually under by about $639,000 versus our original fiscal 21 budget. Employee benefits is also a key driver of the underline it's under by just under $1.2 million. That's primarily due to building in just the arc for the pension contribution, again that doesn't mean that if we do better in fiscal 22, that we could still do an additional funding of the pension plan. But the budget is based on the actuarial requirement and actually there was a small reduction in the requirement for our other post employment benefit plan as well. So, those are really the key drivers of that underrun. Chemicals is up by about $119,000 that's primarily due to anticipated known price changes, general and administrative is up by about $38,000.

Rochelle:

IT versus the original budget is up by about $32,000, insurances up by about $110,000. I should mention that for non-captive insurance lines, there was [inaudible 01:29:52] market, there was negotiation and what we're seeing is not unique to RWA, there has been an increase in water insurance as well as property insurance. But again, that's based on the market not unique to our cells. Utility and fuel is up by about $110,000 distribution, price increase and electric service will impact that category. On pump power I mentioned we did build in an assumption on the distribution price increase, and maintenance and repair versus our original budget is up by about $198,000. And we do want to ensure that we're really focusing on required maintenance and repair. For outside services versus our original budget tier were increased by a little under $200,000 about $174,000.

Rochelle:

For business requirements although there's been some puts in take some that's virtually fine with our original fiscal 21 budget, our specialized expertise is actually down and the key drivers there are due to two items that we had assumed we would use external resources for fiscal 21. We're actually using internal individuals that are captured within our payroll category so that's the key driver there. We are seeing an increase in specialized expertise that's project related. And that's primarily a third party expertise that we're utilizing primarily an operations in CPND area in fiscal 22 and a small increase in technology related. If you move to the next chart, this is where you can see our fiscal 22 proposed budget versus the revised budget. And again, as I already mentioned our revised budget had actually, had a reduction of about $4.9 million.

Rochelle:

So, you're going to see some opposite effects here. So, payroll is over a revised budget by about $489,000. We have built in for fiscal 22 annual increases as well as your reinstatement of the bonus plan for management employees. Employee benefits is actually down slightly and this is primarily due to the lower cash, recommended cash contribution to the VEBA. Our plan or other post employment benefit plan, there is actually a small reduction in medical versus our revised budget. However, medical... our projection for medical for fiscal 22 is significantly higher than our projection for fiscal 21. How long we expect medical expenses will return to their normal levels. So, their line items are very similar to what they were in the original budget there's some small differences. Get into those investors particular questions, outside services is one of the areas... I don't know Jennifer, if you can make this side just a little bit smaller you might work.

Rochelle:

And I think Larry mentioned this earlier on is that in our revised budget for fiscal 21, we did make significant reductions for our outside services, we reduced that budget by just under $950,000. So, what you're seeing here is some of that reinstatement for business requirements even though there's really not any change on what those required services are. The revised budget, there were some categories even within business requirements that were reduced. Specialized expertise is just up a little bit versus the original had the revised budget. And you will see here just a little more pronounced increase in the specialized expertise that's project specific. So again, especially in the operations in CPND area, we do have included in our fiscal 22 budgets and project specific expertise. And then technology related is also up here versus the revised budget. That was one of the areas that was reduced due to COVID.

Rochelle:

If there's no questions on O&M, I'm just going to spend a minute talking about some of the other assumptions. So, Jennifer if you can move on to the next slide. So, this is some of the other key elements that go into our overall operating budget. So, for pilot we do look at our grand list submission. We know with the assessments that we have, we don't know the mill rate. So, we do need to estimate our mill rates for in all our jurisdictions, so we do our best estimate that and I do want to mention that John Triana is very proactive in looking at the assessments then that come in. If we have questions we follow up, if we don't think something change was appropriate, we do take actions to resolve those with the jurisdictions where we have planned.

Rochelle:

Debt service is favorably impacted due to prior refinancing including the 34th and 35th series. We have built in for fiscal 22, closing on some additional DWSRF loans. So, you may be aware that we're closing on the fourth tranche of AMI, hopefully later this month and before the end of the fiscal year. And then there's also three other projects that we expect to actually close on our financing for both loans and grants. We will also as Larry mentioned, be looking on especially as we go out with our new debt associated with our rate application, we'll be looking at opportunities for refinancing. We are continuing to monitor on opportunities and we do get periodic updates on what that's looking like given our... when our bonds are callable and what options we have. We have not built in any additional out of the way water system revenue bonds that will be associated with upcoming rate application.

Rochelle:

Also, depreciation in the fiscal 22 budget that's being proposed, because it doesn't include an increase on to the rate application into the $6.5 million that will be something that will change assuming that the rate application is approved. So, there will be an increase subsequent to our rate application being approved. So, those are some of the other key items that go into our operating budget and Jennifer if you go to the next page. This is our meeting's task, this is really where it all comes together. And what you could see here just by way of comparison, we're showing our original fiscal 21 budget, our revised budget, our projection. This projection for fiscal 21 was based on through third quarter. Larry mentioned at the last RPB meeting that we have been able to make a slight improvement to our fiscal 21 projection.

Rochelle:

So, we are currently projecting a coverage of 118%. And as was mentioned, that is really due to keeping that operating and maintenance expenses at that lower level. Because had that not been the case we would have based our current projections, we would have had a shortfall. So, that's a key factor entering in that and you can see for fiscal 22, this is our overall budget as I mentioned, we do think that we will be able to mitigate the $922,000 shortfall, when new rates go into effect. Excuse me, unfortunately one of the items that is lower, but we're doing what we can is actually interesting calm. And that's really due to the much lower interest rate environment that should help with our debt service. But it doesn't help with our investment earnings. Until the... unless there is questions on the maintenance test, we can move on to the opportunities and vulnerabilities.

Rochelle:

We did something a little different here this year where we combine the opportunities and vulnerabilities because for the most part, they can go in either direction. And what we're showing here is just some of the key items that have the largest potential impact. So, one of the things that we have to estimate on is what part of payroll is going to be O&M versus non O&M which would be our capital or jobbing working on pipe, say for other ones of our commercial enterprises, [inaudible 01:39:52] impacts on employee benefits, how much of that is overhead on the capital projects versus O&M. And that can be pretty, pretty significant change even with a 1% change in that assumption. I would say based on our current assumption for fiscal 22, this is probably a little bit more of a vulnerability than it is an opportunity.

Rochelle:

They can see factor I mentioned, this is the first year that we're using a vacancy factor or assumption, we'll be monitoring that closely. And probably that can go into either direction, it does make our budget a little bit tighter and a little less conservative than what we've done in prior years. Medical claims is one of our bigger expenses, as I mentioned earlier we are self-insured. So, that can be higher or lower based on the claims that our employees incur. The other estimate that we need to make and some of you have heard me mention this in the past, you always have to make an assumption about not just how much the medical claims will be, but how much will be associated with retirees versus our active in our active, because retiree medical claims are basically paid out of our plan as opposed to paid by RWNH so that's another assumption. I would say that this point is probably either an opportunity or a vulnerability. Also, we make assumptions regarding pricing increases.

Rochelle:

I mentioned a few of those that include the iTunes license fees. I'm particular those annual fees that we pay, our chemicals on is another area we have to make some assumptions distribution pricing for electric service is another area that we have to make some assumptions. Outside services, I think is also an area this might probably be a little more of an opportunity than a vulnerability, where we have built in as I mentioned, specialized expertise especially project related. If we don't use quite the extent of outside expertise, it's possible that line item will be lower on maintenance and repair. Again, we want to make sure that we're focusing on that but weather is one of the areas that impacts maintenance and repair so if we have a severe weather winter, that can definitely have a negative impact and of course that's hard to control. And then there's just other potential savings or vulnerabilities that really across a wide range. On the revenue side weather can definitely go in either direction.

Rochelle:

If it's a dry hot summer, we can see an increase in our fuel consumption and our revenues. If it's so cool and wet not so much, conversion to monthly billing we definitely had to make some assumptions about how that conversion is going to happen, when it's going to happen and what the impacts are going to be. We'll also be watching closely after the conversion happens. How is that impacting customer’s ability to pay? You might recall when we did the monthly billing business case that we share with you, we did make an assumption that there would be a small hiccup after the convergence of monthly billing due to those smaller monthly bills versus the larger quarterly bills.

Rochelle:

We also make some assumptions regarding billing to cash conversion and then other revenues. I think probably other revenues there's probably a little more upside than downside. I think the assumptions were relatively conservative that went into our other proprietary and other water budget estimates. So, those are again key items that we have less control over that do impact our overall budget and what are actually we'll be looking at into fiscal 22. And with that if there's no questions for me at this time, I'll turn it over to Larry to summarize.

Larry:

Thanks Rochelle. I want to summarize our presentation. First, we have due to the prudent steps that we took to deal with COVID-19, we'll be in a strong position to finish fiscal 21 as the 11th year in which we have not had to take a draw from the rate stabilization fund, which is a positive with from a financial standpoint in the rating agencies. We have kept our strong fund balances among the four funds listed there construction, growth, general fund, and our pension plan contributions. We have a multifaceted approach to our cash collections program in order to make sure that we have a strong finish not only this year but next year.

Larry:

We are looking at very prudent cost management so that if we find that our revenues and our cash collections are strong, sometimes we will pull expenses in from the next fiscal year and meet them in the current year along at the same time of watching our expenses and making sure that they are either in line or finding ways that we can reduce them as we go along. And we'll continue to look at interim [exzoomial 01:45:45] alternative ways of financing such as the DWSRF refinancing bonds, when we have the opportunity to and interim financing as well as pursuing grants. And our budget is set so that it will help us execute against the strategic plan. So, with that we'll take any final questions.

Jay:

Larry, if I may. Okay.

Larry:

Yes, sir.

Jay:

What I said about the budget applied to both budgets, and Rochelle as well. I want to say that when we hit the 10 year mark Larry, we said that we came a long way and a short time, in the 10 years and now it's 12 years and we've accomplished that much more. One thing I thought of was, I mean I have family in... and I have family in Tennessee out in Nashville. And one of the popular Simon's town neighbor is Linda on my mind. And I want to make sure she gets the kudos as well to retire recently [inaudible 01:47:13] Okay.

Larry:

Very good, Jay. Thank you.

Jay:

You are welcome.

Tim:

Okay, you certainly have been a master of appropriate complements. And I must thank you for advancing all of them and I too want to thank obviously Larry, Beth Rochelle, Ted, Prem, Jeanine. And all the staff that have helped support this organization particularly in this COVID year and I'm certain there may be a few questions to follow this. But I did want to sort of segue way with Jay's comments so that everyone here understands that the board in general is very appreciative that you're all working hard. And we still give you our hardnosed criticism and questions as we should and must but kudos to all. Are there any questions for the team that you want to address? Jeff, do you have anything, any observations, anything?

Jeff:

The question that I asked last night for the benefit of the Finance Committee Mr. Slocum, had to do with opportunities to the extent they exist with regard to higher rates, more favorable rates on the wholesale waterfront. And Rochelle indicated that in the next cost of service study they'll be taking a look at wholesale rates, understanding that there's contractual obligations and the authority based on the outcome of that cost of service study, we'll have to evaluate any opportunities in the context of contractual commitments. The observation that I made last night that I'll repeat for your committee is that when I looked forward to receiving the fiscal year 22 budget, I was looking for balance because we all know that in order to make the fiscal year 21 budget consumer friendly, we saw the authority reduce the fiscal year 21 capital program by roughly 51%, which involve deferring and delaying some significant capital projects that are also involved the Lang laid application.

Jeff:

So, with that in mind and with the understanding that we're still in the pandemic and we still have a number of challenges that we're not all that certain what the outcome is going to be. But we also have the GHD recommendations, we also have the five and 10 year plans, long-term plans, the capital project prioritization matrix, an awful lot of work that's been done by the authority to identify and properly prioritize critical infrastructure projects. So, I was looking for balance and I'm satisfied as I indicated last night to Consumer Affairs and Land Use that the authority did approach the fiscal year 22 budget with consumers in mind, looking to obviously undertake some critical projects that really can't be deferred any further while at the same time not trying to put everything into fiscal year 22, that was deferred from fiscal year 21.

Jeff:

Obviously, one of the big projects maybe the biggest project, since I've been involved in 13 years is the Lake Whitney Dam project. So, looking forward to talking to Ted and Larry in the future about the proposed alternatives for whether be designed build or other project delivery methods that can allow the authority to mitigate the cost of that project. But my letter will be going out in the next week on the fiscal year 22 budget, I'm satisfied with the approach that the authority took and as always the transparency, the level of detail, the comprehensive nature of the budgeting process makes it very easy for me to review and understand where the money's being spent.

Tim:

Well, thank you for that Jeff. That was very helpful. Very, very helpful clear. Anyone else? Well, I guess this great presentation is coming to a close and I need not keep you here any longer. So, with that I'll call for a motion to adjourn. All agreed? I'm sure we all do. Thank you again all. Goodnight [crosstalk 01:51:58].