Representative Policy Board
Finance Committee
South Central Connecticut Regional Water District

Monday, August 9, 2021
Meeting Transcription

Tim:

Okay, five o'clock. Welcome all. We are here tonight for the RPB's finance committee regular meeting for Monday, August 9th, 2021. I'll remind all that we're being recorded, this is a Zoom meeting. Eventually, we'll be in person, probably by 2022. Who knows? So with that, we'll bring on the safety moment.

Jennifer:

I'm having an issue here.

Tim:

Yeah, this is the only thing we see in color. It's avoiding pesticide exposure with protective clothing, and that would include rain gear since we've had a lot of rain. So invaluable lessons in there, key points we can all take to bed with us tonight, think upon.

Tim:

So with that, bring us to the approval of the minutes for July 19th, 2021. They've been distributed. I assume all has had an opportunity to see them. [crosstalk 00:01:56]. Thank you Mr. Jay. Thank you Mr. Charles. So we have a vote. Any discussion? All those in favor?

All:

Aye.

Tim:

Motion carried unanimously. Okay. This brings us to number three, which is consider an act on recommendation to the RPB representative policy board regarding completeness mode and date of public hearing for the Authority’s application to approve issuance of a test rate application. With that I don't know how much... How much do we go into the actual application, Larry? Do we essentially leave that? I know it's a thick tome, many of us have probably had a chance to review, or we just sort of go forward with a proposed resolution?

Larry:

Yeah. Your job is to determine the completeness of the application and go forward with the resolution. And then the RPB will indeed ask questions during the hearing or issue them in the forum [crosstalk 00:03:03] OCA has.

Tim:

Exactly. So all of the things we've received up to now, we've had an opportunity to review. I would trust among the members. There is a resolution before us, would someone like to enter that resolution? Has everyone had a chance to receive it? I'll be happy to read it if that makes it easier.

Tom:

I move.

Tim:

Okay, I'll read it just so we all have it on the record. The [inaudible 00:03:34] resolved the finance committee recommended to the Representative Policy Board that the Authority's issuance test rate application filed with the RPB on July 19th, 2021 is complete. And that a public hearing be held on Thursday, September 16th, 2021 at 7:00 PM, logistics to be determined and that a public hearing be conducted by a presiding member. Okay. So that was moved by Jay. We need a second.

Vin:

Second.

Tim:

Okay. Thank you. Okay. Any discussion? Okay. All in favor.

All:

[crosstalk 00:04:13] Aye.

Tim:

Motion carries unanimously with those present. Okay. So we'll leave the discussion and the interrogatories from Jeff, he's posted a few questions [inaudible 00:04:27] points, finances, all that gets left with the subsequent meetings. Okay, great.

Rochelle:

The only thing I just want to mention, we're going to be adding to the notice the logistics for a remote meeting, if that's a decision. So I just wanted to mention that.

Tim:

Okay. Well, that is important because things are evolving. I think that's a good idea. Okay. Okay. Now, it's been a while since we've done one of these. There is the question of the presiding member, are these generally conducted in different locations, just arbitrarily or how does that work?

Larry:

No. They've generally always been held at the... At least the 12 years that I've been with the RWA, they've always been held at 90 Sargent Drive.

Tim:

Yeah, that's where we thought.

Larry:

Yeah. And through the notice we've had in some years, one or maybe two people attend the hearing, but it's not generally widely attended.

Tim:

So based on that, it's presumed that's where it would be held as long as it's in person and we wouldn't have to move it unless there was a majority of people from some other locale. Is that what you're saying basically?

Mario:

Tim?

Tim:

Yes.

Mario:

This is Mario, if I may. If in person, it would be held at 90 Sargent. Not really a reason to... Since it covers the entire district there's not really a reason to hold it in one town versus another unless it was sale of a land.

Tim:

Oh, it only is stated in the resolution. That's why I bring it up.

Mario:

Yes. [crosstalk 00:06:11] that it will most likely be held virtual.

Tim:

Okay. Okay. Thank you, Mario. Okay. This moves us along to the discussion of the 10-year model. You've all gotten your copies, Rochelle is here to do a general presentation. You're ready, Rochelle?

Larry:

Just by way of introduction, you'll recall every year about this time, the finance department under Rochelle's leadership will undertake this 10-year model. And we always like to get the input from both the Authority board members as well as RPB members on the types of scenarios that they would like to see examined. And we may well have thought all of those that are of interest to you. But if there are any that occur during the presentation or after you've thought about it after the presentation in the subsequent days, we'd like to hear from you if there's an additional scenario that you'd like to have us look at, like maybe increasing coverage or increasing depreciation or something like that. So with that by way of background, I'll turn it over to Rochelle who will review the scenarios that we're looking at, at this point.

Tim:

Thank you, Larry.

Rochelle:

So as Larry mentioned, these are for discussion purposes and these are primarily ones that we have looked at in the past. So you might recall that we often look at not just our normal depreciation increase, but what if we increase by incremental amounts and an increasing incremental amount, how does that change our leverage, but what does it do to rates? We've also looked at coverage in the past. We've also modeled how we can have the same result by utilizing depreciation without actually increasing coverage. We often do scenarios relative to pension. So I think you're aware at this point, we're targeting to get to fully funded by the end of fiscal '25, we had done scenarios in the past where what it would mean from a rate perspective if we reverted back to getting there by fiscal '23 and what that does for rates perspective.

Rochelle:

We've also looked at other post-employment benefits. And in particular, when pension gets to fully funded, what's the increase that we want to put into their post-employment benefits versus depreciation? And we've done sometimes a couple of different scenarios regarding that. Commercial net revenue, just to mention, we tend not to put in acquisitions because variability that might be associated with that. But we do look at the organic net revenue growth. A couple of years ago, we did look at volatility relative to the commercial revenue, but with our current plan, that would be to put in net income of the commercial enterprises, the ones that are outside the general bond resolution back into the construction fund to mitigate financing. That is another way to mitigate volatility. But we do include our estimate of net revenue from the organic growth.

Rochelle:

We've also done some sensitivities relative to what are revenue decline and what we've mentioned in the past. It could be declines that are associated with weather. Like if we have a cool wet summer even, what that might mean. And these scenarios tend to show the impact of if our revenues and cash receipts are not as anticipated, what does that mean? What does it mean for upcoming rate applications? We've also looked at as part of the model and we can do sensitivities around what the reserve fund balances are. I think you're aware that when we do these scenarios and when we're doing the 10-year model, we're really looking at the rate impact of different scenarios and what it does from a rates perspective. We also look at what it does from a leverage perspective. And then a key part of the modeling is where are those capital requirements? And another key part I touched upon earlier is when the pension gets to fully funded, what's going to be the allocation between in particular, other post retirements, and getting that funding level up versus these one-time opportunities that this would be to increase our depreciation?

Rochelle:

So those were the considerations. If you move on to the next page, I just want to go through, and this is really a reminder of what we did in 2020, sort of to recap and then to get your input on any additional scenarios that you might want us to look at for the 2021 update. So one of the other things that we did actually for the 2020 scenarios, and even in 2019, instead of just doing multiple scenarios, we actually came up with what we would consider the recommended scenarios. So last year we did a base case and the details of what we assumed are noted here. And that rate impact for actually, what if the upcoming rate application was less than 7%. I should mention, and definitely be interested in your input if you want us to do the scenario the same as we did last year or differently.

Rochelle:

In the base case, we actually made some assumptions last year about when the pension gets to fully funded, how much we put in depreciation and how much we put in OPEB. So instead of doing a totally separate scenario on that, we built it into the base case. So definitely interested in your input on that. We also last year came up with a recommended scenario and the recommended scenario was what do we need to do after we did the base case to get the rate increase to be less than 6.5%. And that's an opportunity to see what changes do we need to make in capital or O&M or even pilot assumptions. And we're pleased to say that we're just about on target for that scenario, even despite our larger capital program.

Rochelle:

Last year we also looked at a scenario, not focused on the current application that we have pending, but more focused on the outer years to see what could we do from other expense reduction initiatives. Moving on to the next page. We also did a couple other scenarios on the capital side, which capital, as you know, was the key driver of the model. So we did a scenario of increasing the capital plan by like 10% year over year. What does that do? And based on our current five-year plan, our five-year plan that was recently approved does have capital above what was in last year's model. So we definitely pay attention to that. We also just to show the impact of a one-time increase in capital expenditures, what does that do? What does it do to the rate application that needs to cover that? So that's a scenario that we did last year and in other past years. And then we also looked at a scenario where what does it do to our rates if we shortened up the pension funding?

Rochelle:

In the appendix, there is what we did for fiscal 2019. But it's pretty much in 2019, we pretty much did mostly the same scenarios that we did in fiscal 2020. The only additional one that I'll mention, which from my personal opinion, we probably don't need to redo based on the result, we also looked at well, what if we changed our capital timing to be more aligned with how our year-end disposition works? But that really didn't make much change.

Rochelle:

So as Larry mentioned, we definitely wanted to get your input on, are there particular scenarios that you'd like to see different than what we've done? Any input that you have to make the models more informative? Again, we're really looking at what the impacts are from our rate perspective, how we out the capital program and O&M expenses and other aspects will influence rates and will influence leverage in particular.

Tim:

I can't jump aloud and say, gee, I've got a thousand ideas. I think this is one where I personally feel staffed recommendations are key to our better understanding. I don't know how else to put it. You've generally been satisfied with the models that have been used, correct?

Rochelle:

From my perspective, but we want to make sure that it's informative to the RPB members and if-

Tim:

Right, right. So is there anyone in the room tonight that has some infill here that might be helpful to any recommended changes or additions for this?

Jay:

[inaudible 00:17:17].

Tim:

Yes, [Mr. Jaser 00:17:20].

Jay:

Yeah. I've always been one to look into the depreciation and especially zeroing in on funding the pension fund. And we've come a long ways in 10 years to be where we're at today and the consistency we've had in the last two or three years, four years. And bringing the rates approval into the best interest of our consumers. I just want to thank Rochelle for that.

Rochelle:

Thank you. It's a team effort.

Jay:

You and the team. Sure, Rochelle. Thank you.

Charles:

Rochelle, what would the numbers look like in scenario three? I mean, what would the rate increase be if we increased the [crosstalk 00:18:16]?

Rochelle:

So this is actually when we increase appreciation, I mean, you can think roughly it's 500,000 is roughly a little less than half a point. It does depend on what we... One of the reasons we look at this scenario is a key thing that it does, even though it does have rate pressure, it helps with our leverage, which is another key concern. So the dialogue there is, is there a receptivity to increasing? Having more than that million dollars and what does it do to rates and the trade-off between sort of the rates and the leverage? So we look at that every year. Charles, the exact impact and what it does in a particular rate application will also depend on what also is happening with the capital program and the debt requirements. That's why look at it every year. But you can say roughly 500,000 is little less than half a percent.

Charles:

Okay. Do we have any... I don't know. This probably isn't a discussion for now, it'd probably be more when this gets to the full RPB, but do we have any indication of the direction of rates this year from the rest of the state?

Rochelle:

Well, we know that Connecticut Water, for example, [inaudible 00:19:59] I think it was about 20% or a little over. And that doesn't look like on a preliminary basis that it's going to get approved. When we go through our financing in our preliminary official statement, which we're just beginning update to have all those comparisons. So we'll be updating all that. That includes not just Connecticut but neighboring utilities.

Charles:

So it's utilities, not just water authorities.

Rochelle:

It's not just water authorities. We actually look at private as well as municipal as well as [inaudible 00:20:40].

Charles:

But just strictly water versus [inaudible 00:20:44].

Rochelle:

Yes, strictly water.

Charles:

Okay.

Mario:

Tim, this is Mario.

Tim:

Yes, Mario.

Mario:

I do like the looking at the depreciation, if I recall, that's a flexible number so that we can adjust it as opposed to the coverage from rate case to rate case and-

Rochelle:

We can, yeah. We can adjust the incremental piece. Yeah. We make it better. We can't change the ones like the piece, we can't go down from what's already in rates, but we definitely have flexibility within the minimum and max on depreciation.

Mario:

And then it's effect on the leverage and our future payments and how that affects any funding that we're able to achieve. So, I mean, those are things I'm always interested in is how do we reduce that amount of leverage so that we can reduce that effect on the rates and not be paying for a long, long periods of time if we can avoid it?

Rochelle:

So we can definitely model that again, where we do... We could even do one or more. If that's a focus area we could do more than one scenario on depreciation.

Mario:

Thank you.

Tim:

Anyone else? Okay. Well, hearing none, at least for the moment, I guess we can think about it further. You're probably looking for some input fairly soon, right, Rochelle?

Rochelle:

Yeah, fairly soon. But if you do think about something like Larry mentioned, just let us know.

Tim:

Okay. And just as a reminder for us, when in fact will we begin to see some of these modeling concepts come forward?

Rochelle:

So it goes to the authority board in October, and it will be probably the November meetings that we'll review it with RPB.

Tim:

Okay. Okay. Thank you for that.

Mario:

Tim?

Tim:

Yes, Mario.

Mario:

Tim, just one comment. I really want to appreciate Rochelle and Larry and all bringing this to us at an early stage to get this input because as I recall, years ago there wasn't this kind of discussion, it was... And I think this makes the whole organization better to at least have the opportunity to provide input.

Tim:

Right. I agree. Okay. With that, we set upon any new business. Was there something, Jay?

Tom:

No, just stuff from me. If I could just note, I think we would like to avoid the experience of the Connecticut Water company relative to the 20% rate increase. I think that this is a reflection of the prudence of management with the water authority. And I commend Larry, it's leadership, Rochelle, and everyone.

Rochelle:

Thank you.

Tim:

And that's been a long range process too. Yep. That's a good track record you're talking about. Okay. Thank you for that, Tom. Now I'm going to move us along. If there is any new business. I don't know if there's anything someone needed to bring before us. I do not have any, but if there is any, speak up now or forever have to wait to our next meeting.

Tim:

Okay. Well, then I will just mention our next regular meeting is Monday, September 13th, 2021 at five o'clock. Okay gang, looks like we're here at adjournment. I have a motion to adjourn. [crosstalk 00:25:16]. Got a second. We're all out of here.