

Representative Policy Board

South Central Connecticut Regional Water District

Application for Rate Increase :

April 18, 2019

Final Decision of the Representative Policy Board

A. The Applicant's Request

On January 4, 2019, the South Central Connecticut Regional Water Authority ("RWA" or the "Applicant") submitted an application to the Representative Policy Board ("RPB") for an increase in its water rates and charges sufficient to generate an additional \$7.521 million in annual revenues over base period revenues (the "Application"). This is an overall increase of 6.3% over water and non-water revenues collected during the historic period of the twelve months specified in Section 619A(1) of the Applicant's General Bond Resolution. The effect of this Application on the water bill of the RWA's average residential customer would be an increase of approximately \$10.77 per quarter or .12 cents per day. The Application was filed pursuant to the statutory authority set forth in Section 14 of Special Act No. 77-98, as amended, ("Section 14").

B. Participants

The following parties participated in the proceedings:

- RWA
- The district's Office of Consumer Affairs ("OCA"). The OCA is authorized by Section 15 of Special Act No. 77-98, as amended, to act as the advocate for consumer interests in all matters that may affect water customers in the district.

C. Statutory Standard

Pursuant to Section 14, the RWA is charged with establishing just and equitable rates and charges for use of the water supply system. The RWA is authorized to change such rates or charges from time to time, with the approval of the RPB. Section 14 requires that these rates or charges be established so as to provide sufficient funds in each year, with other water supply related revenues, if any, to pay the cost of maintaining, repairing and operating the water supply system, to pay the principal and interest

on outstanding bonds, to meet the requirements of any bond resolution, to make payments in lieu of taxes to constituent municipalities, to provide for the maintenance, conservation and appropriate recreational use of RWA land, and to pay all other reasonable and necessary expenses of the RWA and of the RPB. For purposes of analyzing the present application, the key criterion is meeting the requirements of the General Bond Resolution, in particular the “issuance test.”

D. Notice and Procedures

On February 21, 2019, the Application was accepted as complete and a public hearing called on Thursday, March 21, 2019 at 7:00 p.m. at the RWA office, 90 Sargent Drive, New Haven, Connecticut, by a unanimous vote of the RPB. The RPB designated Timothy Slocum (Cheshire) to serve as Presiding Member at the public hearing.

In compliance with Section 10 of Special Act No. 77-98, as amended (“Section 10”), the RPB published in two newspapers, of general circulation in each city and town comprising the district, the date, time and place of the public hearing to be held by the RPB to consider the Application. The notice was published on February 23, 2019. A copy of the notice was also filed in the Office of the Clerk of each city and town within the district and with the Office of the Secretary of the State of Connecticut. The notice was posted on the RWA website. The Applicant filed, as supplementary material, responses to written pre-hearing questions submitted by the OCA.

E. Public Hearing

At the public hearing, the Applicant provided sworn testimony from the following witnesses: Linda M. Discepolo, RWA’s Executive Vice President and Chief Financial Officer, and Rochelle Kowalski, RWA’s Vice President of Finance and Controller. These witnesses testified regarding the financial and operating condition of the RWA. They highlighted actions taken to mitigate the requested rate increase and to improve the financial viability including that \$29.9 million of the capital program will be financed with internally generated funds, the use of lower cost financing alternatives and grants, the favorable impact of refinancing, operating and maintenance efficiencies, and long-term cost

reduction initiatives. They also provided an overview of the Application, discussion of revenues and operating and maintenance expenses (O&M), and review of the issuance test.

Questions from RPB members included: O&M increases, bonding, typical customer's annual water consumption in gallons, depreciation, actuarial information, wholesale rate computation, Rate Stabilization Fund, and potential for long-term debt refinancing opportunities.

The OCA submitted a statement that supported the RWA's selection of the historical period and projection of the revenue needs of the RWA. The OCA recognized that the rate increase presents economic challenges. Although the OCA's role is to act as an advocate for consumers, the OCA emphasized that ensuring a viable RWA is in the best interest of consumers. He stated that the information provided contains realistic and accurate planning for the continued execution of the RWA's long-term plan and he recommended approval of the Application.

No members of the public testified or provided comment at the public hearing.

The following exhibits were entered into the record for the Application:

- Exhibit A - RWA's Application dated January 4, 2019
- Exhibit B - OCA's First Set of Interrogatories dated January 25, 2019
- Exhibit C - RWA's Response to OCA's First Set of Interrogatories dated February 4, 2019
- Exhibit D - Management's response, dated February 25, 2019, to the OCA's third interrogatory from the First Set of Interrogatories issued on January 25, 2019
- Exhibit E - OCA's Memorandum, dated March 14, 2019, recommending approval of the Application
- Exhibit F - Presentation from March 21, 2019 public hearing

These exhibits are more completely listed in Attachment 1. The RWA's Application, responses to interrogatories, sworn testimony provided by representatives of the RWA at the public hearing, and the presentation handout are collectively hereinafter referred to in this document and in the Findings of Fact as the "Application."

F. Analysis

The RWA continues to face significant financial challenges caused by a steady declining trend in draft of approximately 1.0% annually, more efficient appliances and fixtures, aggressive outdoor water conservation, economic conditions, seasonal weather variations, climate change that can influence both quantity of water supply and customer usage, fewer people per household, national standards and codes for water-using fixtures and appliances, commercial and industrial process efficiencies and technologies, changing culture and attitudes, and environmental concerns based in part on perception of scarcity of water supplies. The RPB recognizes that RWA has: (1) taken significant steps to implement efficiencies in both capital and operating expenditures to mitigate its needs for additional revenue; (2) continued the 114% coverage requirement to strengthen its financial position; (3) included an additional \$1 million increase in depreciation expense; and (4) through the implementation of policy changes to coverage and depreciation expense, has generated funds internally necessary to replenish reserves and reduce debt leverage.

At the same time, the RPB is mindful of the impact the proposed rate increase will have on RWA customers who are experiencing financial hardship, increased taxes, and other economic pressures.

After considering all of the evidence presented, the RPB agrees that the requested increase is required if the RWA is to issue the additional bonds necessary to finance its capital improvement program not funded through internally generated funds. The issuance test of the General Bond Resolution requires the Applicant to demonstrate that it will have sufficient net revenue after operating expenses to pay the projected debt service on any bonds outstanding in the current year and in any future year, as well as on its bonds currently proposed. The revenue requirement was calculated using the most historically conservative income projection the Authority is authorized to utilize. Additional detail concerning the Application of this financial test to the Applicant's current and future financial circumstances is set forth in the Application. The RPB recognizes that the Authority's capital program is a major cause of the requested rate increase. The RPB is cognizant of the fact that this Application reflects a capital reduction from historical levels.

Applying the issuance test to the facts before the RPB, and mindful of its statutory charge to maintain the fiscal soundness of the RWA and to ensure a safe and effective public water supply system, we conclude that the proposed Application should be approved. Separately stated findings of fact and conclusions of law are attached hereto as Exhibit A.

Exhibit A

Representative Policy Board

South Central Connecticut Regional Water District

Application for Rate Increase

:

April 18, 2019

Findings of Fact

1. The RWA's Application, received January 4, 2019, for an increase in its water rates and charges, and was filed pursuant to the statutory authority set forth in Section 14 of Special Act No. 77-98, as amended.
2. The RPB Finance Committee held a meeting on February 11, 2019 to review the Application and recommended the Application to the RPB as complete.
3. At the RPB's regular meeting held February 21, 2019, the members voted unanimously to accept the Finance Committee's recommendation and a public hearing was called for on Thursday, March 21, 2019 at the RWA office. The RPB designated Timothy Slocum (Cheshire) to serve as Presiding Member at the hearing.
4. Notice of the public hearing to consider the Application and to allow interested persons, including water users and property owners within the district, to be heard was properly made pursuant to Section 10 of the District's enabling legislation, which is Connecticut's Special Act No. 77-98, as amended. Notice of public hearing was published in two newspapers of general circulation in each city and town comprising the district on February 23, 2019.
5. A public hearing was held on Thursday, March 21, 2019 at 7:00 p.m. in accordance with Section 10 of Special Act No. 77-98, as amended. No members of the public gave testimony or spoke at the hearing.
6. The Application sought to increase water rates and charges sufficient to generate an additional \$7.521 million, or an overall 6.3%, in revenues over the historic twelve-month period.
7. Pursuant to the Application, the water bill of the RWA's average residential customer will increase approximately \$10.77 per quarter or .12 cents per day.

8. The cost allocation and rate design incorporated in this Application is based on the cost allocation and rate design study performed by Woodcock & Associates, Inc. and Raftelis Financial Consultants, Inc. in July 2017.
9. This Application for a rate increase is in conjunction with the RWA's issuance of its Water System Revenue Bonds (the "Bonds"). As such, this Application is an "Issuance Test Rate Application," defined in the RPB Rules of Practice as a rate application "where any rate increase is based upon revenues needed for debt service of a new bond issuance for capital expenditures."
10. The issuance test requires that the RWA's historical revenues plus any necessary increase are sufficient to cover pro forma revenue requirements, including 114% of costs associated with debt service and principal and interest payments on the Bonds.
11. In the Application, the RWA uses July 2019 through June 2020 to compute pro forma expenses.
12. In the Application, the RWA chose a twelve-month historical period between July 1, 2018 through June 30, 2019, which had \$111,518,000 in net water sales collections, \$7,030,000 in non-water sales, \$1,582,000 in interest income and \$652,000 in Build America Bonds subsidy, for a total of \$120,782,000 in estimated collections. The total of the water and non-water revenues for the historical period is \$118,548,000. Applicant selected the lowest historical revenue period during the relevant eighteen-month period due to RWA's continued downward trend in draft over the last nineteen years.
13. The RWA's total projected revenue requirements for the pro forma year are \$128,303,000 as set forth below:
 - (a) The RWA projects \$61,099,000 as the total operating and maintenance expense for the pro forma year as more particularly described in the Issuance Test tab of the Application.
 - (b) The RWA projects \$8,660,000 as the total payments-in-lieu-of-taxes ("PILOT") expense for the pro forma year as set forth in the Issuance Test tab of the Application. The estimated PILOT expense is based upon estimated Grand Lists as of October 1, 2018 and October 1, 2019 and estimated mill rates for Grand Lists as of October 1, 2018 and October 1, 2019.

- (c) The RWA used \$49,060,000 in pro forma expenses related to debt service on its bonds outstanding. This total is based on the total of \$43,035,000 in maximum aggregate debt service in fiscal year 2021, multiplied by the 114% coverage requirement under the issuance test.
 - (d) The RWA used \$2,984,000 in pro forma expense related to principal and interest payments on the proposed bonds, including refinanced interim debt and Drinking Water State Revolving Fund debt financing. This total is based on the total of \$2,617,000 in payments on the Bonds in 2021, multiplied by the 114% coverage requirement under the issuance test. These debt service amounts are estimated assuming a yield (cost) of 4.75% for RWA bonds, in the amount of approximately \$28.8 million exclusive of the anticipated premium, and 2.85% and 3% for Connecticut Drinking Water State Revolving Fund financing in the amount of approximately \$11.7 million. The \$28.8 million includes the long-term financing associated with the Great Hill Tunnel and Pipe Restoration project. The actual rate increase will be adjusted depending on the effective interest rate paid on the RWA proposed bonds.
 - (e) The RWA used \$6,500,000 in pro forma expense related to depreciation in conformity with the requirements of the General Bond Resolution.
14. The RWA reduced its \$128,303,000 revenue requirement by \$652,000 to reflect the Build America Bonds subsidy received in the twelve-month historical period and \$1,582,000 to reflect the interest income received in the twelve-month historical period for a total minimum amount of \$126,069,000 to be raised from water and non-water revenues in the pro forma year under the issuance test.
15. The difference between the minimum amount to be raised from water and non-water revenues (\$118,548,000) and the historical period total for water and non-water revenues (\$126,069,000) is \$7,521,000, which represents the minimum additional revenue requirement needed under the issuance test for the pro forma year.
16. As a result of a business decision made by the Applicant after assessment of multiple factors described in its Application, the issuance test in the Application does not include an allocation from the Rate Stabilization Fund.

17. The RWA was able to begin replenishing the Rate Stabilization Fund in fiscal years 2011, 2012 and 2013 bringing the balance to the target level of \$10 million.
18. The Application reflects a capital improvement program of approximately \$36.5 million annually and is an amount that is supported by GHD.
19. This Application incorporates the lower interest expense associated with the December 2017 and January 2018 refinancing, reducing debt service by approximately \$551,200 in the maximum debt year. Prior refinancing also favorably impacts this Application.
20. This Application also incorporates the lower interest expense associated with projects expected to be financed through the CT DWSRF. The financing requirement in the Application also incorporates the use of approximately \$29.9 million of internally generated funds. This lowers debt service by approximately \$1.9 million.
21. The Application reflects operating efficiencies and savings of approximately \$1.0 million, including non-recurring savings, which have been achieved. These operating efficiencies include innovative approaches and savings across multiple areas.
22. The Application incorporates approximately \$38,000 in PILOT savings.
23. According to the Applicant, the Application includes \$1 million increase in depreciation expense to further improve internal generation of funds necessary to replenish reserves, fund a portion of the capital program and reduce debt leverage.
24. The Applicant expects to use the proceeds from the sale of the new Bonds to fund its capital program for approximately eighteen months, from July 2019 to December 2020.
25. The OCA's memorandum addressed to the RPB, dated March 14, 2019, provided its opinion that the Applicant acted reasonably in the selection of the historic period and projection of the revenue needs of the RWA. The OCA recognizes the Application as a necessary tool for the successful execution of the RWA's long-term plan and recommends approval of the Application.
26. The water and related charges established by the RWA are just and equitable rates and charges, which together with other available funds, will provide the RWA with funds in amounts sufficient for the purposes set forth in Section 14 of the RWA's enabling legislation, but not in excess of such amounts.

27. The RWA continues to face significant financial challenges caused by a steady declining trend in draft of approximately 1.0% annually since 1999, more efficient appliances and fixtures, aggressive outdoor water conservation, economic conditions, seasonal weather variations, climate change that can influence both quantity of water supply and customer usage, fewer people per household, national standards and codes for water-using fixtures and appliances, commercial and industrial process efficiencies and technologies, changing culture and attitudes, and environmental concerns based in part on perception of scarcity of water supplies.
28. RWA has implemented a 114% coverage requirement, with RPB concurrence, to strengthen its financial position. There is no change in coverage in this rate Application.
29. RWA has taken steps to implement efficiencies in both capital and operating expenditures to mitigate its needs for additional revenue.

Conclusions of Law

1. The RWA's Application for an increase in its water rates and charges was filed pursuant to the statutory authority set forth in Section 14 of RWA's enabling legislation.
2. Notice of the public hearing to consider the Application for an increase in water rates and charges and to allow interested persons, including water users and property owners within the district, to be heard was properly made pursuant to Section 10 of RWA's enabling legislation.
3. Based upon the above Findings of Fact, the RPB concludes that the RWA's proposed Application meets all requirements for approval, including the requirements of the issuance test and applicable law.

Attachment 1

Exhibit Number/Letter	Exhibit Name
A	Application to the RPB, dated January 4, 2019, for the Authority's 2019 Rate Application
B	Office of Consumer Affairs First Set of Interrogatories dated January 25, 2019
C	Management's responses to the OCA's First Set of Interrogatories dated February 4, 2019
D	Management's response, dated February 25, 2019, to the OCA's third interrogatory of the First Set of Interrogatories issued on January 25, 2019
E	OCA Memorandum dated March 14, 2019 recommending approval of the Application
F	Rate Application Presentation dated March 21, 2019