Representative Policy Board
Finance Committee
South Central Connecticut Regional Water District
Via Remote Access

Regular Meeting of Monday, August 10, 2020 at 5:00 p.m.

MEETING TRANSCRIPTION

ATTENDEES: Finance Committee Members: Tom Clifford, Charles Havrda, Jay Jaser, Vincent Marino, Tim Slocum and Michelle Verderame

RPB Members: Mario Ricozzi

FMA Members: David Borowy

Management: Larry Bingaman and Rochelle Kowalski

OCA: Jeffrey Donofrio

Staff: Jennifer Slubowski

Tim:

Okay. Well, and it's close enough. That's five. Let's welcome all to our finance committee meeting of August 10, 2020. Exactly five o'clock. I guess the first thing we'll do is review the safety moment. It makes a lot of sense, and I think most of us probably exerted ourselves in the last number of days, and probably experimented with some unhelpful heat illness, but anyway, it's good reading and good advice.

Tim:

With that, we will go to two, which is the approval of the minutes of July 13, 2020 meeting. Did everyone get them, have a chance to review?

Tom:

I'll move it.

Charles:

Second.

Tim:

Thank you much. Thank you for the second. Any discussion? All those in favor, say aye.

Group:

Aye.

Tim:

Motion carries.

Tim:

So now this brings us to three, which is the big thing, the only thing, I guess, the input for the 10-year model scenarios. Rochelle, you're presenting?

Rochelle:

Yes.

Tim:

Okay. Welcome. How are you doing?

Rochelle:

Great.

Tim:

Terrific. Terrific. Well, go ahead away, and we'll see what happens.

Rochelle:

Okay. And Jennifer, I believe, is going to share the screen.

Tim:

She is.

Rochelle:

Okay, so similar to last year, we wanted to get finance committee's input on the different scenarios that you would like us to look at for the update to the 10-year model, and to perhaps put this in context, I thought I would go through the areas that we've looked at and some of the scenarios that we've done in the past, and then some background regarding why we selected certain of the scenarios. But as I go through, definitely if you have questions, just let me know.

Rochelle:

So in the past, our scenarios have focused on a number of items. We've looked at depreciation, primarily looking at different increases to depreciation, to see how that impacted rates, as well as how that improved our leverage. We've also looked at, in the past, increases from our 1.14% coverage, and we've also done scenarios, you might recall, to demonstrate how we could achieve the same result through depreciation increases, as opposed to coverage increases.

Rochelle:

We've looked at pension, different contribution levels. For example, last year, when we knew to keep with, based on the actuarial information that we had at the time, we knew that keeping to the seven-year would have a significant rate impact, so we modeled [inaudible 00:04:21] as one of our sensitivities.

Rochelle:

We've also looked, at in the past, not just increases in the outer years of the model in particular to the other post-employment benefits, but also modeled when we reach fully funded level within the pension, on what we might want to allocate towards additional contributions and other post-employment benefits versus perhaps what we want to increase depreciation in because that would be one of our opportunities to put some of the monies we, in the past, would have contributed to the pension actually to increase our depreciation. In particular, in fiscal '16, for that model update, we have looked at multiple scenarios with non-core. Including looking at organic growth and what that did to the rates, as well as the risk level, as well as some other scenarios, and what volatility in some non-core offers might do from a water rate pair perspective.

Rochelle:

In the past, we also looked at water revenue decline, more than just our normal 1% year over year, and that could even just demonstrate what the impact of the decline in water revenue could be due to weather, or in the case that we're dealing with, a pandemic, and what that might mean to the financial modeling. We've also looked at different levels of our reserve funds, other than just the construction fund.

Rochelle:

As we work through the model, we have multiple considerations. Definitely, we look at what the rate impacts are of our base case, as well as our sensitivities, with an eye on affordability level. Capital requirements is a big driver of our rates due to how much of the capital program still needs to be debt finance. So last year in particular, we looked at varying levels of capital expenditure. As I mentioned, we've looked at allocation of the pension contribution once we reached the fully funded level, and then of course, a new consideration that we have is what the impacts of COVID-19 are going to be. So for example, as you know, we have a very reduced capital program in fiscal '21 and also a lower than normal capital program in fiscal '22 that was driven in large part due to the expectation of lower revenues and the delay in our rate application to be able to fully fund the capital program. But as we look at the outer years of the model, that is expected to have an impact due to how much of the capital we've cut back in the current and upcoming fiscal year. So those are some of the really key considerations that we look at when we do the 10-year model and how the different scenarios impact those items.

Rochelle:

Just moving on to the next page. So in fiscal '19, based on the input that we received, we did multiple models with different levels of capital expenditures. We also did multiple scenarios with different levels of depreciation, and as I mentioned, different levels with the pension and OPEB contributions. One of the other new things that we did last year is we selected these scenarios that we recommended, so we focused on those. So I'd be interested in the feedback if you like that approach or would prefer an alternative approach.

Rochelle:

The base case last year was pretty straightforward as far as the reserve funding levels. we kept the general and rate stabilization funds at their current level, as well as the growth fund. One of the changes that we made last year, just because of the size of the contribution that we would need to make, based on then actuarial reports, we did push out the fully funded, a time period for the pension to fiscal 2025.

Then we did an alternative scenario, so you could see what the rate impact would be had we not done that. I mentioned increasing depreciation to varying levels, the allocation of the reduction in the pension contribution.

Rochelle:

Last year, our recommended scenario, you might recall, was a scenario that kept the upcoming rate increase at less than 7%. So that took a year over year, lower increase in O&M, as well as a reduction in the capital program to keep that increase at that lower level. The base case, you might recall, was actually just a little under 8%. So again, that's another area we're interested in your feedback on.

Rochelle:

If you move to the next page, we also did a scenario with a capital expenditure increase. We did one with a reduction, which we did feel required further analysis from a risk assessment perspective. We also modeled what a large capital expenditure might be in a outer-year case could be. We've talked a lot about upgrade to our CIS system, or it could be a large infrastructure program. We also looked at whether timing the level of capital expenditures to the applications where we have more use of our year end dispositions. So that might be a little confusing, but to help clarify, for rate applications that are effective in July, we basically have the prior years' year-end disposition almost fully available to offset financing in that rate application, as well as the May of that particular year. So those rate applications generally have more internal funds available than our January cases, where we basically just have one year-end disposition available to us to offset financing.

Rochelle:

And then we did another scenario that even had additional increases in depreciation. We wanted to see how much that would increase rates, but also how that improved our leverage, which is a key parameter that we look at, as well as the rating agencies in particular look at our leverage. So we tried to pick scenarios that may actually be facing the business, or upcoming business decisions that we need to make, with an eye towards affordability, and the rate levels, and what it would mean, how we could achieve these different outcomes.

Rochelle:

I also, in the appendix, I just want to mention, I'm not going to go over it in detail, but it just has what we've looked at in 2018, 2017, as well as 2016 for your review, and to just share with you what we've done in the past, and to get your thoughts and comments on what you'd like us to look at for this upcoming model update.

Rochelle:

So with that any recommendations, any thoughts on scenarios, what you'd like to see, even what you'd like to see in the presentation, did you like the idea that we picked certain scenarios that we recommended?

Tim:

Jennifer, I had one question, because sometimes I got to admit, this becomes a little gray for me. The fact that we made reductions in our capital program this year because of COVID, or we made reductions, how does any of these scenarios... Does it push some of these capital things a little further out? How are we addressing those?

Rochelle:

We're going to be doing... as part of the model. We are going to be doing an update to our five-year capital program, as well as... I mean, the outer years will be less of a focus, but yes, we believe because we reduced fiscal '20 quite a bit, we lowered the first part of fiscal '22 because we delayed our rate application. There is going to be an increase in the outer years.

Jay:

Mr. Chairman, this is Jay. I have a question of Rochelle, okay?

Tim:

Of course, Jay. Thank you.

Jay:

Rochelle, please refresh my memory on depreciation as a nonprofit. Are we allowed to carry that revenue into our revenue stream?

Rochelle:

Yeah, yeah. So the general bond resolution, a number of years ago now, was modified to allow us to include depreciation. We are still well below our book depreciation, which is really the key reason why we're so highly leveraged. So our book depreciation is 23, 24 million-ish, and still currently, we're about six and a half million, and that's really been a disadvantage because it's why so much of our capital program is still debt financed. And we'd like to get to a point where we want to raise our appreciation that is in our rates up to our book depreciation.

Jay:

Yes. Okay. No, that's what I was looking at and looking for, so yes. And then, Mr. Chairman, I have one more question.

Tim:

Of course, Jay.

Jay:

... of our consumer counsel, Jeff Donofrio, if he has a position on this for our benefit.

Jeff Donofrio:

Thank you. I think that various considerations in the model scenarios are what I would expect to say. Obviously, it's somewhat remains very speculative in terms of what the financial impact would be on our customers as the pandemic continues. And with no real clarity in the crystal ball arena as to when it's going to come to an end, I think it's important for the RPB and the RWA to continue to have open dialogue about what these scenarios mean for consumers, and obviously, the capital program took a major hit in fiscal year '21, and the ability to continue down that path is not realistic. So at some point, the capital program needs to be back online, along with what was planned, obviously. The depreciation scenarios are important from an internal cash flow perspective and capital timing, likewise is an important consideration. So I think just based on this little, quick overview that Rochelle gave us, that [inaudible 00:17:43] scenarios are what the OCA would expect to see.

Jay:

Thank you, Jeff. Thank you. Yeah.

Tim:

Thank you, Jeff.

Jay:

I wanted to leave room for other people to...

Tim:

Anyone else?

Jay:

If there's no other, I'd like to make a motion that we [crosstalk 00:18:04].

Tim:

Jay, Jay?

Jay:

I'm sorry.

Tim:

This is Tim. I'm not ready for the motion because I did have one additional question, if I may, and it does have to do with our desire, obviously, with the retirement stuff and the OPEB contributions, to be upping them, so that they're more realistic. What cost does that actually have on our capacity with the capital program? I mean, if we're to change a dollar for a dollar, could you tell me if there's any benefit to not being as aggressive there, or is putting it out another couple of years accomplishing what you feel you need to accomplish?

Rochelle:

Well, we want it to get to a fully funded level just from our rating agency perspective. They look at that closely, but also to make sure that we have the funding level that can support upcoming retirements, which is key.

Tim:

Got you.

Rochelle:

When we put money into O&M the year that it happens, it has to be fully captured in rates, but it's sort of one-for-one from a capital perspective. It's more spread out over time, but you're paying interest on it, so it's more than just one-for-one.

Tim:

Understood, okay. Like I said, some of this gets gray for me.

Rochelle:

Right. And from a pension perspective, just to refresh everyone. So for fiscal '21 in our revised budget, we did just put in the actuarial requirement. In past years, we've put in well above that, so that's another thing that we'll have to look at, what that means to the future years, to be able to catch up to the funding level where we want it to be.

Tim:

Right. Okay. So that was my question, or my second question, so if there are any other questions, ask them now. If not, I guess we can forever ask them again, but Jay, you were making a suggestion that we...

Jay:

Yes. [crosstalk 00:20:34]. I haven't reviewed everything, but... and I'm concerned about the retirement, too, funding, which we've been trying to catch up for quite a few years now. But it's number five, Rochelle, that you're recommending, as I read it and look at it, which goes to the January '21 rate increase, which would be under 7%, hopefully. [crosstalk 00:21:05].

Rochelle:

Oh, sorry. This was last year's, so last year, we recommended scenario five out of all the ones that we worked on because it did keep the rate increase under 7%. We thought above that could be a challenge from an affordability perspective, so that was last year's recommended scenario.

Tim:

So basically this year's recommended scenario is number seven? It's the capital expenditure, or are you trying to mirror what we said?

Rochelle:

Sorry for the confusion. We were just trying to share with you what we modeled last year to let us know. Are these similar scenarios you'd want to see again, again, updated for our fiscal '21 and our updated projections, or do you want it to be some other items, other scenarios?

Tim:

Oh, okay. Now, it's clearer. Well, I think working within the model makes a whole lot of sense, but I think Jeff's comment about getting back in a position with capital expenditure, it's important to know that's in the back of things. And I guess we're looking to control a rate increase to the extent possible, and I'd hope it would be not 7%. I guess you're not telling us what you expect to get to you. You haven't done the model, correct?

Rochelle:

Correct. We haven't made the update yet.

Tim:

Right, because I think that's almost as important as a recommendation at this point, but I guess you can't get to that until you do some modeling. Is that correct?

Rochelle:

Yeah, but what we can do, and sounds like this is what you're suggesting, we could model. One of the scenarios could be what would we need to do to keep the rate increase under 7%, so you could see what those impacts would be.

Tim:

Yeah. I think that's sort of how we should shoot at this because there's so much unpredicted. We just don't know anything, and yet we know we have the requirements of the organization to keep well in mind, so I guess I'd just start modeling where you guys think the best thing is with an eye towards getting back on track with capital expenditures.

Jay:

Yeah, and also what would be the timeline for them to be comfortable with for the work they have to do?

Rochelle:

Right. [crosstalk 00:23:48].

Jay:

For management, yeah.

Charles:

Tim?

Tim:

Yeah?

Charles:

This is Charles.

Tim:

Yes, Charles?

Charles:

I'm okay with the modeling that's been proposed. I think it's obvious to everybody that we have to kick the can down the road right now because there's just too many unknowns. I was just wondering, to me, this is outside of our discussion right now, but is there going to be any federal or state money to help with some of these things that I know they're not specifically caused by COVID? But some of our expense going forward and some of our planning that that's getting postponed certainly is caused by it. And is there going to be any money coming forward that we can look outside of our own budgeting and rate increases?

Charles:

Because what we're seeing with Eversource now in rate increases, people are just going to be just so aware of all of that right now.

Larry:

Yeah. So couple things, Charlie, and I'll have Rochelle chime in on this too, but first of all, we've not been eligible for any of the federal programs that they have offered because we are a political subdivision of the state. So we have not been eligible. I just sent off an email today, separately to our congressional and Senate representatives, asking them to include in any future COVID relief bills political subdivisions, such as the RWA, and we've done that now a couple of times, asking that we be included in any relief packages that Congress passes. So we'll see where that happens, the American Water Works Association is pushing that as well, so we're just joining in with the rest of the trade association. We are-

Charles:

Okay, that's good.

Larry:

We haven't had the conversation yet, but we've contacted an individual who writes grant applications as a profession, and we've got a conversation scheduled with her, I think, in the next week to see if she might be able to work for us on a contract basis to find grants at the federal level from the EPA, or the Army Corps of Engineers, or elsewhere in the federal government, that we could apply for grants that could be used for infrastructure investments of various kinds. So we are exploring that as an option as well, to help maybe offset some of our capital programs going forward, and we'll be able to report on that sometime in the near future. [crosstalk 00:26:52].

Charles:

I think that's a great idea because exploring and pursuing in writing grants is a skill unto itself.

Larry:

Yes, it is.

Charles:

And to Jeff's point, I can appreciate the financial maneuvering that we have to do at this point in time, and it's logical, and it's the thing to do, but our projects, and our pipes, and our dams have to be taken care of going forward. So I'm glad to hear that we're looking into that, and frankly, a certain amount of it's political, but I know we have the lobbyists, so I would keep the pressure on because there's going to be a lot of scrambling for the dollars going forward, I'm sure.

Larry:

Absolutely.

Tim:

And to Larry's comment about the... Oh, Rochelle, you were going to speak to that?

Rochelle:

I just wanted to just mention the one thing that we do qualify for, but it's just a pure reimbursement of certain expenses, is for FEMA money, but that's not going forward infrastructure.

Charles:

Okay.

Tim:

Larry, to your comment about trying to be included with the other groups for some of the money, the COVID money, the fact that we're a political subdivision, we're still subject to the same rating agencies requirements and stuff like that. So how would that make us distinguished? I mean, it seems like a real easy fight to make, but maybe there's something else I'm not aware of?

Larry:

Well, you would think it would be to be sure, but it's political because what we've heard, the feedback is, the concern is if they open up the funding for political subdivisions like RWA, then all the towns, cities and towns, across the United States would want to be included in as well, and it's just a matter of the ability to fund that.

Tim:

Oh, I see. I was thinking of us as a regulatory body with rates dictated. I mean, the towns dictate their own rates, whatever they... It's very different than some oversight agency, which does whatever.

Larry:

Yep, but because we are-

Tim:

I see what you're saying, though.

Larry:

Yeah.

Tim:

Yep, okay.

Rochelle:

Yeah, we were definitely at a disadvantage because private utilities qualify for the PPP program, but we did not.

Tim:

Right, okay.

Rochelle:

We thoroughly investigated whether we did or didn't, and unfortunately, we didn't.

Tim:

Gotcha. Okay. Okay.

Charles:

Rochelle, even in the... I know the second phase of the PPP program, they did open up, I'm sure you did, but just you might not be aware that they did expand the opportunities, because there was money that went un-applied for in the end.

Rochelle:

Yeah, we did double check what they... They did open it up a little bit. I think certain kind of public hospitals qualified, but we double checked again, and we did not qualify.

Charles:

Okay.

Tim:

Okay, anyone else be...

Charles:

Did Jay make a motion, or where do we stand... Where do we stand with that?

Jay:

Right now, I'm not sure if we need a motion, honestly.

Tim:

No, I don't think so. This was advisory, correct?

Rochelle:

Yes.

Jay:

Yeah. They're giving us direction, and we're looking at them for direction, and there's a lot of... Not a lot of, but there's several items that they still have to get a handle on to make it more concise. For their side, for management, as well as the RWA and our group. So [crosstalk 00:31:15]. I'm just trying to think how to word something if they're looking for direction.

Tim:

Well, I think we give them the direction here probably, and if they could essentially do some modeling that kind of considers some of the things we've spoken about, like not keeping a huge rate that's going to go forward the next go around. So if you do a model of under, say a 6% or something like that, I don't know if that's too tough, but if it's a way to go forward, then we can probably have some kind of a clearer recognition of what these scenarios mean. Would you think that's the way you want to go with this, Rochelle, or...

Rochelle:

Yeah, this was really just to get your input on it, to look at what you'd like us to update and if there are any new scenarios you want us to look at.

Tim:

Then I would think all of them that are in there are the ones you use. I don't know what else we can throw in there.

Jay:

I would hesitate to tie them to one percentage item. I'd rather give them five to 7%, a lane to work off of, or something to that effect. I don't think they should be held to one-

Tim:

Oh, no, no, and I'm not suggesting we do that. And I think Rochelle's answer is that basically there's different scenarios that they will be working on to build to this point anyway, so I guess it's a range of things to get to a rate. So this is just a first go at it, right?

Jay:

Right.

Rochelle:

Right, and if our base case, like last year, it came up to about 8%. So then we had to figure out what we would need to change from an O&M and capital perspective to get the rate down and whether that was doable or not.

Tim:

So you already did a scenario that got you at 8%. Is that what you said?

Rochelle:

Well, last year [crosstalk 00:33:21].

Tim:

Last year, fine. Right. Okay.

Jeff:

I think you also have to keep in mind that the authority, as part of its cost parity program a few months back recall, delayed the issuance test rate application. So when we're talking about a percentage of an increase, we're not talking about the rate increase at 2020.

Tim:

Right. Okay.

Rochelle:

Okay, so it sounds like the input is pretty much to keep to the scenarios that we've worked on in the past, and that sounds like you like the idea to do a scenario, or a few scenarios, tied to keeping the rates at least in the five to 7% range.

Tim:

Yeah. Sounds reasonable.

Jay:

Yeah. Yeah. Yeah. Reduce the number of scenarios, and to try to close it up a little more for everyone. I don't think it's necessary to have a motion on it at this point because I think it's still in the making. Say this is a rough draft based on our historical documentation that we were presented with, and I just want to make sure that the management has enough time allotted for putting it together based on the direction that we're going with, as a corporation. The timing question, Rochelle, I just... Not that we're saying you have to come back to what's next month or anything; it's just a matter of do you need approximately three months or [crosstalk 00:35:29].

Rochelle:

Well, our plan is to keep to our normal schedule, so we'd actually go to the authority board in October, and then it would come back to finance in November.

Jay:

Yeah. Yeah. And that's when we'd have to take action with that. Yeah. Yeah. So... Well, I don't think we need a motion is necessary to give them guidance because they've given us enough information that we've had a very good exchange. I might yield to Jeff Donofrio, our counsel [crosstalk 00:36:13].

Tim:

I would say we agree with you, Jay.

Jeff Donofrio:

No motion.

Jay:

Okay. All right, let's-

Tim:

What do you want to do, Jay? Jeff?

Jeff Donofrio:

No motion. That's [crosstalk 00:36:23].

Tim:

That's what I thought we were at. Okay. So they have the sense.

Jay:

Yeah, that's fine.

Tim:

They have the sense.

Jay:

Yeah. Okay.

Tim:

Great. Okay. Thank you, Rochelle. Thank you, Larry, as well. Okay. We're at number four, which is new business. Anyone have any new business? I don't. I didn't know if Larry just wanted to tell us that all the lights stayed on in the power plants and all that stuff. Other than that, I guess there's nothing else to worry about.

Larry:

Well, we were running on backup generators, at one point, for about 35 facilities. So we've still got a few that are on backup right now, but we weathered the storm without any damage, so...

Tim:

Which is great.

Jeff:

Just make sure you give July the backup water.

Tim:

Yeah.

Larry:

That's right.

Tim:

Yeah. Only 35 backup generating systems had to work. That's not too bad. The big plant in north, how did that go? Was that on backup, or is that fully-

Larry:

Gaillard was running. We had two backup generators running there. West River was down for a short period of time, for a few hours, but we got that back and running, so no problems in the distribution system from that standpoint.

Tim:

Terrific. And what about trees down and reservoirs full of [inaudible 00:37:52] and all kinds of stuff, leaves? That's all good? Not a big deal? Not a lot of damage?

Larry:

No damage, no major damage, that I'm aware of, so-

Tim:

Right. Well, I know we had 40 trees across the reservoir road on a water property that's not ours, so somebody had to clean up that mess [crosstalk 00:38:16] the reservoir, so anyway...

Tim:

Okay. Anything else before I asked for a motion to adjourn? Good, then I'm going to ask for a motion to adjourn.

Vin:

Mr. Chairman, Vin Marino on the phone. I'll make that motion.

Tim:

Thank you, Vin. Good to talk to you. And second, anyone?

Charles:

Second.

Jay:

Second.

Tim:

All in favor?

Group:

Aye.

Tim:

Permission to leave the meeting. See you later, guys. Thank you. [crosstalk 00:38:44]. Thank you, Jennifer.