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

MINUTES

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

ATTENDEES:	**Finance Committee Members:** Tom Clifford, Charles Havrda, Jay Jaser, Vincent Marino, Tim Slocum and Michelle Verderame
	FMA Member: David Borowy
	Management: Larry Bingaman and Rochelle Kowalski
	Blum Shapiro: Jess Aniskoff and Ronald Nossek
	OCA: Jeffrey Donofrio
	Staff: Jennifer Slubowski

Tim:

Thanks for the snooze alarm. I swear to God I was working. Oh, well so I'll call the meeting to order, I guess.

Jennifer:

Need to view the agenda I have it here, Tim.

Tim:

Yeah. Why don't you do that, because I didn't print it out. Boy. I'm so bad, had a full day today. There we go so we're on to the regular meeting of Monday, October 5th, 2020 commencing at 5:05. We've all got the safety moment. We can review it. It looks like a lot of autumn safety features, which are always important. So I'll read them later and we'll move on to our next item. Jennifer put up that agenda either that or you keep talking and I'll find the email, so I can print it out.

Jennifer:

Jess, where are you going to do your presentation?

Jess:

Yeah, I'm going to try to share screen and hopefully this works. Hold on one second.

Tim:

Thank you. You can have all the time you need.

Jess:

Tim I'll put it up when hers is done.

Tim:

Yeah. I'll find it and print it.

Jess:

Ron, you can see that, right? Or can everybody see that?

Ron:

I can yeah.

Rochelle:

I can see it.

Jess:

All right. I'm going to stay on mute. And then Ron will be going through it and I can come back on. I'm going to try to hide everybody's faces. So you don't have to look at everybody talking.

Ron:

Jess you're making me feel like my Halloween decorations are a little behind here.

Jess:

That's because I have a lot of young kids that want to decorate.

Ron:

Alright, so if everybody's ready. We've met before, but I'm Ron Nossek, the engagement partner for the audit of the authority. Jessica is the engagement manager. We're going to go through a presentation. That'll maybe take a few minute or so if it takes that long if you have any questions while I'm going through it, please feel free to chime in. Or if you want to wait until the end I'll address any questions that you have as best I can. Jess, if you push forward slide there, what we'll talk about here is just the engagement scope, reporting results. We'll go through some financial highlights, really focusing on variances year over year. And then very briefly go through the required auditor's communications that were required by auditing standards to provide to you those charged with governance so the board and the audit committee as well.

Ron:

So moving forward relative to engagement scope and reporting we were performing this audit engagement, actually under three sets of standards. Primarily it's performed under generally accepted auditing standards. And because it’s a governmental entity, it is also subject to generally accepted governmental auditing standards. That's commonly referred to as Yellow Book. So I'll use that reference through the rest of this discussion on the reporting results. And then finally we perform work under uniform guidance, which was formerly the federal single audit act. And that works performed simply on the major federal programs in this case program that the authority had and oversaw. So our primary audit opinion, Jess, you can jump up about primary audit opinion under general accepted auditing standards is page one of the bound document that you receive, or if you get an electronic version it's page one it is on our letterhead and that is the opinion on the financial statements themselves.

Ron:

So we've issued an unmodified our clean audit opinion, the financial statements, which basically says that in our opinion, the financial statements fairly represent the financial position and results of operations of the authority for the fiscal year ended May 31, 2020. Under Yellow Book reporting, what basically the focus is there is we're required to gain understanding and evaluate your internal controls over financial reporting, as well as gain understanding of any compliance requirements that the authority is subject to and if a violation of one of those were to occur, in our opinion would be material to the financial statements. And we report to you on those that is a report that's at the back of the federal single audit report that you received it's referred to as the Yellow Book report.

Ron:

So under internal controls what we've reported is that there were no material weaknesses or significant deficiencies that were identified relative to the internal control system surrounding financial reporting, and then under compliance during the performance of our engagement, the tests that we performed relative to compliance, there were no instances of non-compliance that were identified.

Ron:

So again from the perspective of the Yellow Book report that's a clean report as well. And then when we go to federal single audit, the final report that is very similar in nature to Yellow Book with the exception that the evaluation of the internal control and the testing of the internal control, as well as the testing of compliance, excuse me, is relative only to the major federal program that we tested which was the capitalization grants for drinking water through the state revolving funds.

Ron:

As I see here, and as you can see on the slide, the total grant expenditures in that program were $970,745. And again, so under internal control where we were testing internal control over the compliance requirements of that grant, there were no material weaknesses that were identified over the major federal program that was tested. And then under compliance, we actually issue an opinion here, as opposed to Yellow Book. We just provide you with just a report relative to whether or not there were any violations here, we're issuing an opinion. And we issued an unmodified, a clean opinion over compliance over the major federal programs that were tested. So in the case of what we tested, the transactions that we tested there were no violations of compliance requirements relative to the program.

Jess:

And just to add Ron, not to interrupt you, but the grant expenditures include both the loans and the grant pieces that the authority receives during the year.

Ron:

Yes. Thanks Jess. So that basically those three buckets, if you will wrap up what the reporting results were in, from our perspective in the financial statements that are issued, that those reporting results are really the only thing that belong to us, everything else belongs to management, then we're just reporting relative to that information. So financial highlights and I'd say in advance these are snapshots here that I've provided you of the statement the summary of revenues expenditures and changes in on net position here. What we're going to start off with and give you a side-by-side analysis over the last three years. This is the level I'm going to speak to right now is 30 plus thousand feet. It's not granular in nature. It's not meant be just some highlight summary.

Ron:

So net position increased from the prior year by $23.3 million operating revenues increased 4.2, and that was due primarily to the full year impact of the rate increase that took place in July of 19. And I think that actually you've got another rate increase in the future, right? That you're currently dealing with, but relative to this fiscal year that did have a full impact on the fiscal year. Your other revenues increased about a million dollars due, primarily to the pipe safe offerings and outside lab services. So those are the big drivers that created the change in those revenue line items. If we jumped to the next slide, again same snapshot off to the right relative to the statement of revenues and expenses, this slide focusing on the expenses operating and maintenance expense decreased about $0.6 million for the year.

Ron:

And this was attributable to decreases in outside services, maintenance, and repair, and O&M payroll. And then overall, total operating expenses increased by about a million dollars due to increases. A small number of categories included an increase in the provision for uncollectible receivables. I do believe that was for the most part COVID related. But that did occur. And then if we jump one more slide Jess to wrap up statement of revenues and expenditures. So from your non operating income and expenses. So I'm working my way down this statement, if you will. Overall total non operating expenses increased just slightly year over year the authority encourage savings and its net interest expense due to refinancing activities. And additionally, there was a decrease in the realized and unrealized gains on investments due to market conditions.

Ron:

I believe part of the audit procedures that we'll perform relative to investments is because of the gap in time from the close of the fiscal year, May 31 to the audit date, which is a couple of months, at least down the road, three months down the road. We will re-evaluate the market conditions of the investments close to the audit date just to make sure there hasn't been any significant declines that we would have, additional declines, and we would be talking significant at that point in time.

Ron:

We may need to add a disclosure to the financial statements as a subsequent event in this case. And Rochelle, you can correct me if I'm wrong, but I think for the most part, by the time we got out two and a half to three months, most of that decrease in the unrealized portion had recovered itself. So the market had rebounded by then, and things were, if not back to where they were prior to the hit they were close to that. The next slide is the, I'm just giving you here out to the right the summary of net position. So it is really the bottom section of the statement of net position or the balance sheet, if you're maybe from more familiar with commercial accounting, and as indicated the net position of the authority increased from the prior year by 23.3 million to a total net position of 211,589,000.

Ron:

The net investment in capital assets increased due to construction in progress related to ongoing projects. Your restricted portion, net assets increased by 2.3 million, and that was due to increases in the authorities debt reserves and debt service funds, as well as some DOT receivables that are restricted. And then finally, unrestricted net assets increased $12.7 million. So the unrestricted clearly is the portion of that net asset CAT classification that can be used for future activities, future operations of the authority moving forward that are not tied or restricted in any manner they're at the discretion of the board theoretically.

Ron:

Jess, if you want to jump up, this here is simply a snapshot of your long-term debt. As of the date of the balance sheet, May 31st, 2020 as you can see here, your long-term debt of the authority increased about 9.2 million for the fiscal year, primarily due to debt issuances you know, an increase of bonds payable of 9.1 million. Also, I bring to your attention down towards the bottom of that information off to the right, the net pension liability and the net OPEB liability the two combined, didn't create much of a swing relative to, those liabilities as they relate to the balance sheet or the statement of net position. But you do see there that the pension liability did go up by a little over $1.9 million.

Ron:

But the OPEB liability went down almost 1.7 million which is a good direction for, the OPEB in my opinion to be moving. I find that to be more volatile and perhaps more problematic liability throughout the government industry. I'm not suggesting that it is that here for the authority, but there's less time that has to, over time that organizations have measured and put aside funds in order to deal with that liability. So it's good to see it going in that direction.

Ron:

Next slide. Okay so these are, we'll go through real quick here. I'm not going to go tab by tab, but these are all the required communications to those charged with governance that we, as your auditors are required to report to you. We don't pick these things out from a topical perspective ourselves. They are set by auditing standards that these are the areas we have to report to you about. And if you go down and read all of them, and there was a formal letter that came out with the financial statements relative to these, basically what they are, are categories or areas in which if management was expressing or showing some bias to the financial statements, bias to either make them look better than they are, or perhaps make them look worse than they are.

Ron:

These are the areas where those items would theoretically show themselves. So if there were things that we needed to report to you relative to these topical areas they could be indicative of a level of bias, or something going on relative to management desired impact- those financial statements. So in all cases, there was nothing that came to our attention relative to our discussions or the audit work we performed that gave us any indication that management was telling us anything other than what the factual results were for the authority relative to operations in the net position as of the end of the fiscal year.

Ron:

You can jump right to the end Jess. That's all I was going to discuss with you this evening. There you see on the slide, our context for making both Jess and I feel free at any time to reach out to us directly. It usually works a little better if those communications come through management, through Rochelle, or other members of management. But if you do feel compelled to reach out to us directly we're going to pick up the phone and have the conversation with us.

Tim:

Ron and Jess, thank you for your presentation. Are there any questions from the group? Well again, I'll just restate my apologies for being late to the game. Certainly hate to keep the company waiting. So if there's no other questions, I guess we move on to the approval of minutes for September [inaudible 00:20:37].

Jay:

I'll move the minutes.

Tim:

Minutes were moved discussion second, please.

Vin:

Second.

Tim:

Okay. Discussion? All in favor.

Group:

Aye.

Tim:

Motion to approve is accepted and passes unanimously. Now we're up to Rochelle, I'm assuming with review of quarterly financial report.

Rochelle:

Yes. Thank you.

Tim:

Thank you Rochelle.

Rochelle:

And I think Jennifer. Hopefully you have this that you can-

Jennifer:

I do let me just display.

Rochelle:

[inaudible 00:21:10].

Jennifer:

Okay. Did you want to start with this page?

Rochelle:

I just actually, I'll just say a couple of words. This was just a cover letter to put the first quarter results into perspective and I'll get into what that perspective is as I go through the financials. So you can go on to the next page. All right. Why don't you continue until the statement of net position or the balance sheet. Yeah. Here. Okay. And on the balance sheet, I'm just going to talk to the highlights, but if you do have any other questions, feel free to ask. So on the balance sheet first in the area of the plan you can see that net utility plan increased year over year.

Rochelle:

So this is now a comparison of August of 2019, which was fiscal 20 to August 31st of 2020, which is fiscal 21. So it's a different year over year comparison then that the auditor's went through. So the plan is up by 0.6 as you would expect. Utility plan in service is up by almost 17 million, accumulated depreciation is up about 23, and you can see the construction work in progress is more than offsetting the decline in utility plant and service.

Rochelle:

So construction work in progress is 6.9 million. And those changes are really due to the timing throughout the year of when projects go into service. Given COVID at the end of the fiscal years on projects, as you know, were postponed and weren't able to fully complete. But I do expect when we get later into the fiscal year that the net utility plant will be up further year over year for the land and the non-utility land on, you might recall that last year there was purchases of what had been referred to as the DePodesta and the Hendrickson, our property in Hamden and Bethany. Those purchases were recorded in the second quarter of fiscal 20. And that's why you're seeing first quarter, to first quarter year over year changes there.

Rochelle:

For the cash and cash equivalents. I mean, you can see that there's an increase of about 10.7 million, and that's primarily due to our year-end disposition. Our year-end disposition we put 5.5 million into the general fund. That's a non-restricted fund that was done to give maximum flexibility to address COVID-19 concerns only because it's unrestricted, it's in the cash and cash equivalents I category. We also added about 750,000 to the growth fund also which is good news. We were able to put in between

August of last year and August of this year about an additional 5.5 million into the revenue fund that's invested in the Connecticut STIFF. And then there were some other net changes across the revenue accounts. But primarily the primary driver is really the year-end disposition and the revenue fund dollars that are invested.

Rochelle:

Another category that I want to mention is you can see that long-term receivable. You might recall that's the trifecta note receivable that we have, so that's a long-term receivable. Restricted assets, those are actually down by 11.7 million. Key drivers of that is our construction fund from August of last year to August of this year is by about 13.3 million. And that's due to the capital expenditures that have occurred during that period partially offset by our year-end disposition that we need into the construction fund. There is also partially offset by a higher DOT receivables is well as some [inaudible 00:25:59] smaller changes across the restricted accounts. But primarily again, that reduction is primarily driven by the construction fund. On the regulatory assets that's where our costs of issuance, is as well as our other regulatory assets.

Rochelle:

And that's by about 700,000. And that's primarily due on the cost of issuance side due to amortizations that we make each month, as well as on when we have refinancing there is sometimes a write off of the outstanding cost of issuance on the series that we're refunding. So there was a write-off of the 35th series associated with that cost of issuance. So that's a good adjustment there and the regulatory assets that's primarily just our normal amortizations. The deferred charge on our refunding. That's primarily due to the refinancing that we had during this period. And that's primarily due to changes due to the 35th series the charges on pension plans. This is based on the actuary real reports on a consistent with the Gatsby standards that we get at the end of the fiscal year, as well as amortizations.

Rochelle:

One of the key drivers here I mean this is also an impact on the pension liability where the key drivers had to do with the mortality table for the union plan, as well as investment performance, as well as the experience that we had relative to our retirements. Deferred charge on OPEB, you can see that's actually year over year decrease and that was primarily driven by the lower than the actuarial assumptions relative to health care costs. On the liability side you can see that total liabilities are down on year over year by about 21.5 million. Again, just hitting the highlights, as you can see our revenue, bonds payable, less current that's down about 14 million. Primary drivers there are on the increase side is the 35th series are refinancing where the par value on the refinance bonds what's actually higher than the fees bonds.

Rochelle:

But also we made a significant principal payment on August 1st. So that's the primary driver of that reduction. Net premiums and discounts, the year over year reduction there is primarily due to the impact of the refinancing as well as the just monthly amortizations. DWSRF loans payable. That's actually down a little bit year over a year, and that's primarily because for the DWSRF loans, we only had one additional loan during fiscal 20, and we do pay principal payments on those loans on a monthly basis. The net pension liability was mentioned earlier. This is updated based really once a year, based on the actuarial reports. Again, key driver of the pension liability had to do with a mortality table I use for the bargaining unit plan, as well as the investment returns and experience of retirements. Those are the primary drivers of the increase and the net pension obligation was primarily driven by the, as I mentioned earlier, the lower healthcare expenses versus the actuarial assumptions.

Rochelle:

You can see the current portion of revenue, bonds payable. We have an increase. There are E1 of 2021 principle payment is under 21 million and our current portion of DWSRF loans payable is actually up slightly year over year. There's some other changes within the current liabilities resulting in a year over year increase of 3.2 million. The deferred inflows on pension and OPEB again, that's based on actuarial reports. So it's trued up at the end of the fiscal year, and then we make monthly amortizations throughout the fiscal year. But year over year the key change is the increase in the total, which is 3.1 million year over year an increase in net position. Are there any questions on the balance sheet? Okay. Now I'm going to move on, Jennifer, if you can skip the A1 commentary, maybe just go to A1.

Rochelle:

Okay. And here again, I'm going to just highlight a few key items, but if there's any other questions, just let me know. Our operating revenues were up versus budget by just under 2.7 million and that's 8% and that's primarily due to the metered or revenues, which is primarily due to higher than anticipated consumption. Other revenues were also up and these are other gross revenues and that's primarily due to some miscellaneous water charges as well as jobbing. And then the other proprietary revenue is primarily up due to outside lab and in the pipe safe offerings. For operating expenses, for O&M expense and this is versus a reduced revised budget. We're actually under by about one over 1.1 million. I'm going to get into that in a little bit more detail.

Rochelle:

But this point we are basically categorizing that underrun is primarily timing related. I want to now bring your attention to the bottom part of schedule, A1 which is on what we call the maintenance task. And you can see here that we are projecting some favorability versus our revised budget. So to date, the impacts of the COVID-19 non cash receipts have not been as severe as we forecasted. You might recall we had conservatively estimated some significant impact on our receipts. The other dynamic that is occurring is that billings are actually off. So with the not severe impact on our cash receipts and why the billing up due to the higher consumption that you heard about. We are now projecting to be over our revised budget by about 7.5 million. However, there is still a relative significant forecasted shortfall. So as of the end of August, our shortfall is still projected to be just under $5 million to make our coverage requirement of 114. If there's no additional questions on this page, if you go to A2.

Rochelle:

So here on the upper part of the page is really just what we went over. It's the results of three quarters, and this is where we do some sensitivities and this is in the cover letter. So this year we did something maybe a little bit different. We did one sensitivity where we are assuming a 4% increase in non-consumption for the remainder of the year. And in our other scenario, we showed what a 2% reduction would be. And this is really just to demonstrate what the impact would be in the sensitivities to changes in consumption and therefore our cash collections. You can actually see that with a 4% continued increase and consistent cash collections, the shortfall actually drops to 3.4 million. And if we have a 2% decline for the remainder of the year, the draw on the short fall would actually increase to 5.7 million. So again, here it's just to show sensitivities and you can see that really the variability on the O&M side is really related to pump power and chemicals because most of the costs are primarily fixed costs. So again, it's just to give a sense of [inaudible 00:35:40].

Rochelle:

Moving on to schedule B. This is where we show the line-by-line variances and do a projection for the remainder of the year. And here, I'm just going to talk just about the larger variances through the first quarter. And then I'll just spend a minute talking about the projection. So some of the larger variances where payroll was actually under by about 175,000 we are currently running under in our headcount. So that's actually the primary driver there. Employee benefits is also under, by about 204,000. And that's primarily due right now to lower medical. And we do believe that does have to do with a reduction in the very end of last year and into the early part of this year due to COVID with certain delays. And some of them were elective procedures.

Rochelle:

And I think you're aware of since we're self-insured, it's still way too early to say that that's going to be a permanent under on. Outside services is under, by about 186,000. We believe that primarily timing, maintenance and repairs is also wonder. And again, we think that's really primarily timing and then there's other net changes across various categories. At this point we are projecting that we're going into beyond budget for the end of the fiscal year. I do expect that there'll probably be some variances at the line item level, but at this point we're getting to our forecast, and as I mentioned, there's still quite a bit of uncertainty relative to what the impacts are actually going to be due to COVID. I do want to remind everyone that our revised budget assumed return to full business as usual in January, and still very much an uncertainty I think it's really going to be dependent on what happens over the next few months. Is there going to be a [inaudible 00:37:59] are attached projections, as well as our [inaudible 00:38:09] as well.

Rochelle:

Okay. Moving on to schedule C here again, I'm just going highlight some of the key items in the larger variances. So first from an overall projection we are projecting that we're going to basically utilize our significantly reduced budget of fiscal 21. Some of the larger variances just going down the sheet is the Burwell Hill Pump Station. Equipment replacement project, that project is currently being re-evaluated and is always temporary on hold. So we think that there'll be some opportunity to move some of those funds to other projects that require funding. The Lake Gaillard pump station improvements. As of the end of August, we were forecasting that to be over by 328,000. However, there have now been approved amendments to complete the necessary work on that critical infrastructure.

Rochelle:

So we do have monies to cover that. I do just want to mention that the chemical feed improvements that is showing a overrun of 400,000, that's actually an error, that project is going to be on target. However, it's actually the West River DAF project that we're going to accelerate. So we're going to use available monies to cover that in year overrun for that project just within the fiscal year. The Lake

Gaillard electrical upgrades that's showing an under run of 198,000 that project is not needed. So that money is actually being diverted to cover the pump station improvement, project overruns.

Rochelle:

So moving onto some of the other key items, you can see that there's hardly been much money expended on the backwash and surface water pump station replacement project. And that's really due to that project, still suspended due to COVID-19 that's in our treatment plan. You can see that the West Avenue Tank Painting Project is under budget. And that's really due to the work that was done in fiscal 20. So it is freeing up some additional monies that were going to repurpose to other projects in fiscal 21.

Rochelle:

And I think that's really some of the larger job variances, again, the overall high level view is that we are going to utilize our significantly reduced capital budget for fiscal 21. Moving on to schedule D, so what you see here is actually the interest rates, as I'm sure you're aware are significantly lower than actually what we had forecasted even in our revised budget. So we have lowered our forecast for investment earnings. We are doing what we can to actually move as much money as possible into the Connecticut stiff for the funds that need to be kept liquid. And even with a construction fund, even though our interest earnings on the construction fund don't help our maintenance task. But they do help the monies that we have available for capital projects. We are generally just maturing monies to fund each week's capital funding. So we're doing what we can to help offset the lower interest earnings. But the STIFF in particular is low and the various opportunities to invest money are very low at this time.

Rochelle:

And you can just see on the next page [inaudible 00:43:03], this just shows year to date on a cash receipt basis where we are versus the budget. And unless there's other questions that's the first quarter report.

Tim:

Any questions? Thank you, Rochelle. I did have one little question and it goes back to the increase in revenues from consumption. How does that play into receivables on revenue, the non-payment is that number still upticking, it's just a little offset because of greater bills?

Rochelle:

So we are seeing an uptick in our receivables. However, not to the extent of what we anticipated, revise budget. So even with that uptick, we're still able to afford cast and improvement versus our revised budget. So watching that very closely and we're still monitoring cash on a weekly basis.

Tim:

Right. Okay. Thank you for that. Anyone else? So moving along.

Rochelle:

This is the same cover note, just to put the results in perspective. Okay, so this is the first quarter dashboard. So first on the consumer and stakeholder metrics that we're reporting, there's actually no new information on the combined customer satisfaction. So at this point it's still for the period ending

March of 2020. As far as our ratings, they were last affirmed in October of 2019. So no change there and then no change with our; we'll update the water rate comparison with our next official statement. I'm not going to go through the financial metrics unless there's any questions. Because I do think I covered them all when we talk through the first quarter results.

Rochelle:

From the system metrics, I do also want to point out that for August of this year, the 56,883 million gallons, that's actually the result versus the prior year of 51,816. So that's where you can see that we really are having higher production than what we had anticipated. The disinfection byproducts that's meeting actually exceeding its target. And also UNRW are unaccounted for water at this point, which is not totally through August that will be updated again is a little over a target. It's actually down from August of last year. And we thought for the metrics it's probably good to see the same month or the same quarter in, from the prior year and perhaps the year-end number as comparison. There any questions on the metrics?

Tim:

Then good. Okay. I guess we're moving along to number six, which is the discussion of possible recommendation of the RPB regarding the freeze of RPB member compensation increases. Again, this is just sorely a little bit of a review. If anyone wants to opine differently on our past opinion, now's the time to do it. Is that correct? Any thoughts guys, going to stick to plan? Looks like we're going to stick to plan. Boy. Silence is golden. Are we all muted?

Charles:

Yeah, it's probably just symbolic, but I agree with sticking with it at this point in time.

Tim:

I agree. Okay. So now we're onto new business. If there is any, I have none, is there anyone one else who has anything to contemplate or consider at this time? Well, terrific. I guess this brings us to number eight, which is our adjournment. I'll accept the motion to adjourn.

Jay:

I'll make a motion to adjourn Mr. Chairman.

Tim:

Thank you Jay. Vin was that our second?

Vin:

Certainly.

Tim:

Thank you. Okay. Well I'll call for-