

Representative Policy Board
South Central Connecticut Regional Water District

Application for Rate Increase :

October 21, 2021

Final Decision of the Representative Policy Board

A. The Applicant's Request

On July 19, 2021, 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 \$7.911 million in annual revenues over base period revenues (the "Application"). This is an increase of 6.5% 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 \$10.85 per quarter, \$3.62 per month, or .12 cents per day, or approximately 6.3%. 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 the legislation cited in paragraph A above, 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. The legislation 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 (“PILOT”) to constituent municipalities, to provide for the maintenance and recreational use of RWA land, and to pay all other reasonable and necessary expenses of the RWA. 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

In accordance with Section 149 of Public Act No. 21-2, effective July 1, 2021, the RPB was permitted to hold the hearing on the application by remote access and various procedural requirements were met. On August 19, 2021, the RPB voted unanimously to accept the application as complete and called a public hearing for Thursday, September 23, 2021 at 7:00 p.m. The RPB designated Richard Smith (Milford) to serve as Presiding Member at the public hearing.

As required by Section 10 of Special Act No. 77-98, as amended (“Section 10”), the RPB published in the New Haven Register and the Connecticut Post the date, time and place of the public hearing to be held by the RPB to consider the rate Application. The notice was published on August 21, 2021. A notice of the hearing 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 witness: Rochelle Kowalski, RWA’s Vice President of Financial Reporting and Analysis. This witness testified regarding the financial and operating condition of the RWA, actions taken to mitigate the requested rate increase, and that an annual average of approximately \$45 million dollars, during the eighteen-month period covered by the rate application, will be dedicated to the capital program and is consistent with the presented fiscal 2022 to fiscal 2026 five-year capital plan. The capital spending

also incorporates the 3Rs: Risk, Resiliency, and Redundancy, as presented with the ten-year model and for the fiscal year 2022 budget. A few of the larger projects requiring funding during the eighteen-month period covered by the rate application included improvements to the Lake Whitney Dam & Spillway Improvements, the West River Water Treatment Plant Improvements (Dissolved Air Flotation, Chemical, and Electric) project, and the Spring Street Pump Station. In FY 2020, the capital program was purposely reduced to conserve funds due to COVID-19 and the decision to delay the rate application filing that had been planned for July 2020, with a January 2021 effective date, if approved. The Applicant also provided an overview of the Application, actions to mitigate the rate increase, discussion of revenues and operating and maintenance expenses (O&M), and review of the issuance test.

There were no questions from RPB members.

The OCA provided a statement that supported the RWA's Application, as noted in his memorandum to the RPB dated September 16, 2021.

No members of the public were present at the public hearing.

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

Exhibit A - RWA's Application dated July 19, 2021.

Exhibit B - OCA's First Set of Interrogatories dated August 9, 2021.

Exhibit C - RWA's Response to OCA's First Set of Interrogatories dated August 19, 2021.

Exhibit D - OCA's Memorandum dated September 16, 2021, recommending approval of the Application.

Exhibit E – Application presentation from September 23, 2021 public hearing.

These exhibits are more completely listed in Exhibit B. The RWA's Application, responses to interrogatories, sworn testimony provided by the representative 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: a 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. The RPB recognizes that RWA has: (1) taken significant steps to implement efficiencies in both capital and operating expenditures to mitigate rate increases and continues to pursue expanding commercial revenue sources; (2) continued the 114% coverage requirement to strengthen its financial position; and (3) included an additional \$1 million increase in depreciation expense.

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 fund its capital improvement program. 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 RWA 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 the rate increase will provide the RWA with the funds necessary to maintain its capital

improvement program and continue essential maintenance programs to provide a high level of service.

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 :

October 21, 2021

Findings of Fact

1. The RWA's Application, received July 19, 2021, for an increase in its water rates and charges was filed pursuant to the statutory authority set forth in Section 14.
2. The RPB Finance Committee held a meeting on August 9, 2021 to review the Application and recommended the Application to the RPB as complete.
3. At the RPB's regular meeting held August 19, 2021, the members voted unanimously to accept the Finance Committee's recommendation and a public hearing was called for on Thursday, September 23, 2021, via remote access. The RPB designated Richard Smith (Milford) to serve as Presiding Member of 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 Sections 10 and 14 of the District's enabling legislation, which is Connecticut's Special Act No. 77-98, as amended. Notice of public hearing was published in the New Haven Register and the Connecticut Post on August 21, 2021.
5. A public hearing was held on Thursday, September 23, 2021 at 7:00 p.m., via remote access, in accordance with Section 10 of the RWA's enabling legislation.
6. The Application sought to increase water rates and charges sufficient to generate an additional \$7.911 million, or 6.5%, 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 \$10.85 per quarter, \$3.62 per month, or .12 cents per day, or approximately 6.3%.
8. The cost allocation and rate design incorporated in this Application is based on a study performed by Raftelis Financial Consultants, Inc. in July 2021. The purpose of this study was to evaluate the cost of operations and physical characteristics of the system and customers'

demand for water. Rates were then designed, which could generate revenues from each class of customer in accordance with the estimated cost of serving each class of customer.

9. The capital spending incorporates the 3Rs: Risk, Resiliency, and Redundancy, and the approach to capital planning presented with the October 2020 ten-year model.
10. 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."
11. 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 including principal and interest payments on the Bonds.
12. In the Application, the RWA uses January 2022 through December 2022 to compute pro forma expenses.
13. In the Application, the RWA chose a twelve-month period from December 2020 through November 2021 (the "historic period"), which had \$115,478,000 in net water sales collections, \$6,564,000 in non-water sales, \$149,000 in interest income, and \$992,000 in Build America Bonds subsidy, for a total of \$123,183,000 in estimated collections. The total of the water and non-water revenues for the historical period is \$122,042,000. The Applicant selected the historic period representing the lowest cash collections in the eighteen months preceding the issuance of the bonds and demonstrates a lower historical revenue than if the RWA selected a twelve-month period with higher cash collections.
14. The RWA's total projected revenue requirements for the pro forma year are \$131,094,000 as set forth below:
 - (a) The RWA projects \$61,672,000 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 \$9,148,000 as the total 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 and mill rates as of October 1, 2020 and estimates associated with the Grand List and mill rates as of October 1, 2021.

- (c) The RWA used \$50,224,000 in pro forma expenses related to debt service on its bonds outstanding. This total is based on the total of \$44,056,000 in maximum aggregate debt service in fiscal year 2029, multiplied by the 114% coverage requirement under the issuance test.
 - (d) The RWA used \$2,551,000 in pro forma expense related to principal and interest payments on the proposed and refinanced Bonds. This total is based on the total of \$2,238,000 in payments on the Bonds in 2029, multiplied by the 114% coverage requirement under the issuance test. These debt service amounts are estimated, assuming a yield (cost) of 3.75% and an amount approximately \$43.8 million, excluding approximately \$6.9 million premium for RWA bonds, and 2.25%, or approximately \$3.5 million loan financing, through the Connecticut Drinking Water State Revolving Fund.
 - (e) The RWA used \$7,500,000 related to depreciation in conformity with the requirements of the General Bond Resolution.
- 15. The RWA reduced its \$131,094,000 revenue requirement by \$992,000 to reflect the Build America Bonds subsidy received in the twelve-month historical period and \$149,000 to reflect the interest income received in the twelve-month historical period for a total minimum amount of \$129,953,000 to be raised from water and non-water revenues in the pro forma year under the issuance test.
 - 16. The difference between the minimum amount to be raised from water and non-water revenues (\$129,953,000) and the historical period total for water and non-water revenues (\$122,042,000) is \$7,911,000, which represents the minimum additional revenue requirement needed under the issuance test for the pro forma year.
 - 17. As a result of a business decision made by the Applicant after the assessment of multiple factors described in its Application, the issuance test in the Application does not include an allocation from the Rate Stabilization Fund.
 - 18. The RWA was able to begin replenishing the Rate Stabilization Fund in fiscal years 2011, 2012 and 2013, bringing the balance to the established target of \$10 million.

19. The Application reflects a capital improvement program of an annual average of approximately \$45 million and this level of spending is consistent with the 2017 GHD Capital Expenditure Forecast Audit.
20. This Application incorporates the lower interest expense associated with the July 2019 and February 2020 refinancing, reducing debt service by approximately \$990,000 in the maximum debt year. Prior refinancing also favorably impacts this Application.
21. This Application also incorporates the use of approximately \$20.1 million of internally generated funds. This lowers debt service by approximately \$1.1 million. In addition, internally generated funds are funding the first seven months of the fiscal 2022 capital program.
22. Savings include CT DWSRF and open space grants, projected DWSRF grants, and other savings resulting in lower debt service of approximately \$89,000.
23. The Application incorporates approximately \$28,000 in PILOT savings.
24. According to the Applicant, the Application includes a \$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.
25. The Applicant expects to use the proceeds from the sale of the new Bonds for its capital program for approximately eighteen months, from January 2022 through June 2023. The RWA is also proposing to finance approximately \$3.5 million through the CT DWSRF to take advantage of the more favorable interest rates.
26. OCA's memorandum addressed to the RPB, dated September 16, 2021, 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 recommended approval of the Application.
27. 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.

28. The RWA continues to face significant financial challenges: a 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.
29. RWA has implemented a 114% coverage requirement, with RPB's concurrence, to strengthen its financial position. There is no change in coverage in this rate Application.
30. RWA has taken steps to implement efficiencies in both capital and operating expenditures to mitigate rate increases and continues to pursue expanding commercial revenue sources.

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 the 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.

Exhibit B

| Exhibit Number/Letter | Exhibit Name |
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| A | RWA's Application dated July 19, 2021. |
| B | OCA's First Set of Interrogatories dated August 9, 2021. |
| C | RWA's Response to OCA's First Set of Interrogatories dated August 19, 2021. |
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