Representative Policy Board
Finance Committee
South Central Connecticut Regional Water District

Monday, February 14, 2022 at 5:00 p.m.
Meeting Transcription

Tim:

Okay, not to cut you off, Jay, but I thought for officialdom... Okay, so I'm going to call together the regular meeting of Monday, February 14th, which is Valentine's Day for all your lovers, of the representative policy board finance committee. Welcome all. We'll start off with our safety moment. It's American heart month. It was a good pick whoever picked it. That's excellent. Hearts are important and we all want to keep track of our tickers. And once we stop knowing we have one, it doesn't matter, I guess. But beyond that, we'll take a review of the safety moment and take it to heart. And with that, I'm going to move on to the approval of minutes of January 10th, 2022 meeting. That was our first meeting, so they've been distributed. All have read, I presume. Any questions, issues, concerns? Okay, I'll call for a motion to approve. All those in favor. Do we have a move, a motion?

Jay:

[crosstalk 00:18:38]

Tim:

Thank you, Jay. And the seconder is...

Charles:

Second.

Tim:

Thank you, Charles. I did call for that vote too soon. My apologies. All those in favor?

All:

Aye.

Tim:

All right. Opposed? Motion carries unanimously. Thank you.

Vin:

Abstain.

Tim:

Thank you. Okay, we had one abstention. Vin, was that an abstention from you?

Vin:

That's correct.

Tim:

Thank you. Thank you, sir. Okay, so now we move on to the Regional Water Authority refinancing update. Michelle is going to lead her presentation on this. Thank you for that, Rochelle. Go ahead.

Rochelle:

Thank you, and Jennifer, I think you can go to the next slide. So we thought it would be a good topic just to share with the finance committee our recent financings, and to recap a little bit of the more recent financings. And I think you're aware, although the RPB doesn't approve refinancing, it definitely impacts our financial position.

Rochelle:

You may recall from when I've talked about the model and done budget presentations, we talk about what we're monitoring relative to opportunities and we've talked about, and actually have done, taxable advanced refinancing. We're going to talk in a minute about an innovative new approach we're now using with forward and delayed delivery, and then continuing to look at tax exempt refinancing opportunities based on the yield curve.

Rochelle:

Because you might remember a few years back, we are no longer allowed to do advanced tax-exempt refunding. So we have to wait until the [inaudible 00:20:29]. So we have been monitoring our opportunities. And with the 36th series, we actually did [inaudible 00:20:39] financing. It occurred on January 5th, along with our new money issue, and we refinanced actually the last remaining maturity of the [inaudible 00:20:51] series. And that was actually a current refunding because that [inaudible 00:20:58] maturity was already callable. And we had already refinanced the rest of the 22nd series.

Rochelle:

And we're pleased to report that the gross savings was just under $1.6 million. The net present value of the savings was about $1.3 million. And we look at what the impact is in our maximum debt year, which is what we use for rate making. And we were able to save about $51,000 a year, and every little bit definitely helps.

Rochelle:

We also did something new, call it innovative from a financing perspective. We actually incorporated into the 36th series, it's going to be 36th series B and it's sometimes referred to as a forward or sometimes referred to as delayed delivery. It's already been priced, so that's a good thing. We locked in the lower interest rates. You pay a small premium because you are pricing before you are actually issuing. These bonds are going to actually be issued on May 3rd. They've already been incorporated into our official statements. And again, they've already been priced. They've already been purchased.

Rochelle:

And these are refunding the 28th A and 28th B series. They're callable on 8/1/2022. We'll also be paying off the maturities that are actually due on 8/1/2022. And we were able to save another $1.2 million gross, and another about almost $1.2 million net. And the maximum debt service [inaudible 00:22:48] to

$100,000. You may actually recall that in our model we did, in our target model, reflects some savings from our refinancing.

Rochelle:

And we're just about on target with what we had put into the 10 model of a savings of about $250,000. So hopefully there'll still be further opportunities in the outer years to further reduce the debt service through refinancing. And again, we'll be continuing to monitor all our options for generating debt services savings through refinancing.

Rochelle:

And I thought it would also be good just to look back over the last five years. So over the last five years in fiscal 2018, we did a 33rd series refinancing through this last one that I just mentioned, and we've actually saved gross $34.9 million and on a net present value basis about just under $28 million, and approaching $2 million in debt service savings. So just thought it would be good to share with you the most recent refinancing, as well as looking back over the recent past and what the refinancing has done to improve the financial position. Are there any questions?

Tim:

Any from the board before I ask one? Rochelle, here's my question. I know that Wall Street is panicking because suddenly they have to find another way to make money. And there's going to be upward trends in interest rates, but essentially because you buy debt over a long period of time, and you will have opportunities as a trend continues upwardly, as openings occur with bonds when you can refinance, could you just explain that because that may not be as clear to all.

Rochelle:

So I think really the opportunity is the same for the yield curve. So generally the life that we're going to be refinancing, because we only refinance based on the existing life. So as long as the short term rates are lower than the longer term rates, there will still be yield curve opportunities. And other opportunities, we always continue to look at what we have outstanding, what their coupons are and what we may be able to do. But even in a rising interest rate environment, we could still have in particular yield curve opportunities, because we'll be refinancing over a shorter life.

Tim:

Yeah, that's what I suspected because I know locally in Cheshire, which is like many other towns, refinancing has been going on for quite some time, but also interest rates have been declining over some time. So incrementally, as they do go back to increasing, they're still at lower levels than they were five years ago necessarily. So it just becomes, as you say, that yield curve and when it occurs and everything else, so you may still have opportunities, is what you're thinking?

Rochelle:

Yes, yes.

Tim:

Okay, that's great. That's good.

Charles:

Rochelle, once you buy those future rates, are you locked in at that point? Have we made a commitment at that point or is it just buying the option?

Rochelle:

No, those are actually committed. There's only a very small number of circumstances really related to the underwriter, like if our ratings significantly change, but they're already purchased, they're already priced and they're already part of the official statement.

Tim:

Yeah, because somebody basically bought it.

Rochelle:

Correct.

Tim:

Somebody new bought the debt or whatever. Maybe the same person bought the debt.

Rochelle:

Yeah, a combination of the writer-

Charles:

I'm trying to get my head wrapped around it. If it's committed, it's on the books, it's on our books and it's on their books...

Rochelle:

It's not been issued yet.

Charles:

So it's more of a timing issue than it is a dollar issue?

Rochelle:

Right, so how this works is there's a relatively small window and we happen to be within it, where you can actually do these forward deliveries or delayed deliveries. So this was priced in January for issuance in May. You do pay a small premium and we did pay a small premium, or will be paying a small premium to the investors, but it's all locked in. It's all purchased. It's all part of the official statement, it just hasn't been issued. It won't officially be it issue until May 3rd.

Charles:

Okay, all right. I guess that's what it is then. We're paying for the privilege of these rates in May versus now.

Rochelle:

You're paying for the privilege of locking in the rates, assuming that interest rates are going to be less favorable if we waited. And we did do an analysis and it did actually show and based on what we're seeing, it was definitely the right decision.

Charles:

Okay. I just try to understand. Rather than paying the premium, just issue them now, but that's three or four month's worth of issuing, so okay.

Rochelle:

Right, we're not paying debt service or anything now, but we were able to take advantage of a lower rate in a rising interest rate environment.

Jay:

Say, Rochelle, this is Jay. The premium is somewhat equivalent to a prepayment penalty, as I understand it.

Rochelle:

It's almost like you might think how you might, in mortgages, pay a little premium to lock in a rate before you close. It's similar to that.

Jay:

Okay.

Rochelle:

A little bit extra because you're locking in the price and you're mitigating the risk that the interest rates are going to rise.

Jay:

Exactly. Exactly, okay. Yes.

Mario:

Or extending the rate that you already locked in if you can't close on time.

Rochelle:

For a mortgage, Mario, you're talking-

Mario:

Right, for a mortgage. Yes, sorry.

Rochelle:

Yeah. Are there any other questions?

Tim:

Well, overall, Rochelle, how do you calculate...? Obviously we pay the interest rate, the debt service is what it is, but is there a way to calculate the debt that cost you this much and the debt that cost you this much, and does it even matter? It's just one of those things, but what would you suggest our average cost of debt is, interest-wise? Or is it too impossible?

Rochelle:

Well, recently it's been pretty low, because I [crosstalk 00:30:31] that. For the new money, we actually were at like 273. So it's been fairly low and we have done a lot of refinancing at various opportunity. When we do the refinancing, we do look at, 'This is our current debt service and this is the revised debt service,' and we're not necessarily refinancing everything. It's got to make sense.

Rochelle:

I don't know if that answers your question, but it has been pretty low recently. I know we keep on saying that the interest rates are rising. We've expected that over the past few years. It looks like now they actually are going to increase.

Tim:

But they're still pretty low.

Rochelle:

Yeah, they're still low.

Tim:

That's it.

Rochelle:

They are still very low.

Tim:

So my last and final would be this, what would you anticipate a next opportunity to be? This year, next year? What would you think in a rising market of cost?

Rochelle:

Cautiously optimistic that when we go out the next time with our new monies there could be, probably it will be on the smaller side, but some opportunity to refinance.

Tim:

Okay, okay. Terrific. Anyone else or have we exhausted this excellent topic? Thank you, Rochelle. That was excellent.

Rochelle:

Thank you.

Tim:

Okay, we're now ready to go on to how we spend all that savings. This would be a discussion regarding authority member compensation. I probably shouldn't have said that. They're going to think they're going to get all this increase after looking at a $1.7 million in savings. So with that, we're looking at a graph ahead of us of CPI, presumably.

Rochelle:

Yes.

Tim:

So this is like what social security did. We're looking at a big increase in CPI, just based on inflation. I hear it's even going to be higher next year potentially. So we know what we're looking at, and this is the backdrop for what we may want to consider. Is that the best way to present that to everybody? So you want to show...?

Rochelle:

I would just say, this is just purely the CPI that we provide.

Tim:

Exactly, and so with that as a backdrop, do you want to move us into the current schedule for the compensation? Or is there more to talk about here?

Jennifer:

Is this what you're looking for, Tim?

Tim:

Yeah, I would think so only because that's really the conversation in general, or the topic, and the backdrop is the CPI, I suppose. So it looks as if we have made progressive moves incrementally, and we've always been like that. So now if you look at history, we're in the beginning year, the first year of what tended to be about a three year history of stabilization where we didn't do much of anything. Am I presenting that as a reliable backdrop, just based on the data I'm looking at? So potentially this could be a year we really don't do anything, or does the CPI guide us differently? I'm looking for some speakers here. Any opinions?

Charles:

I don't know. We're in the second year of a three year cycle. We're not in the first year.

Tim:

Well, we're entering it now, isn't it? I'm looking at 2021 where the chairperson and the members were getting more than 2020, so we would be entering second year, correct?

Charles:

Right, but historically what we've been doing are three year cycles.

Tim:

That's exactly right.

Charles:

So we would simply be in the second year of a cycle, unless because of the rate of inflation dictated whether we wanted to do something... I don't want to say extraordinary, but out of the norm, we would-

Tim:

That's exactly how I see it, Charles. And I guess that begs the question. Do we feel it's a compelling case to go off-program?

Charles:

Well, there's no question inflation is remarkable this year, but will it average out over a three year cycle? Let me know when you get that figured out. I'll let you invest for me.

Tim:

Well, Charles, I'm inclined to think that I don't think we have to be totally guided by the current CPI, even though next year suggests it's going to be higher, but what's the sense in the room?

Charles:

Well, the other historical factor was what management did with the RWA's payroll. Were there significant adjustments because of inflation there this year?

Tim:

I don't have an answer to that one.

Tony:

But I do want to point out that when you did this last year, it was a consideration of the fact that we were in the pandemic and we went from one level of increase to a lower level of increase to recognize that. Now that we're coming out of the pandemic, you at least ought to think about restoring or even repairing.

Charles:

What would the normal level of increase have been for last year?

Tony:

You had been increasing, let's see, $1000, and then last year it went to-

Charles:

No, they were $500 increments [crosstalk 00:37:14]. I think they were $500 increments. No, they're not. No, actually-

Tim:

No, no. It remained-

Charles:

We had $1,500 increments. $1500 then £1000 and then...

Tim:

Yeah, I guess we went from 15 down to 1000. That's what-

Charles:

That's what it was.

Tim:

That's what Tony's reminding us of. Okay, so basically when we did it last year, instead of going up, what might have been the $1500, bringing it to $35,000 for the chairperson-

Charles:

It wasn't $1500 to $1000. It was $1500 and approximately half, because we only went up $700 last year. So we cut the normal increment in half, is what we did.

Tim:

And that's not reflected in this. That's just recall. That's what you're saying, Charles?

Charles:

Well, I'm just looking at the chart. Yeah.

Tim:

So we went from-

Charles:

Instead of $1,500 increases, last year we did $700, except for chairman, we did the $1000.

Tim:

Oh, okay. Right, that's what I looked at. I was looking at the top line.

Charles:

But the chairman normally was increased $2000 a year. The members were increased $1500 a year. And it looks like we cut each of those approximately in half. So maybe that [crosstalk 00:38:43]

Tim:

Yeah, that's a very good point. So that's a case then for putting us back on normal.

Charles:

Yeah, put the other half in this year.

Tim:

Right.

Charles:

The chairman go to $35,500 and the member go to... Well, I'd go right to the 26.

Tim:

26? Yeah, that's $800 instead of $700.

Charles:

Yeah, I guess we did the $550 adjustment. That would be my recommendation at this point. I don't know if you would need a motion or how you want to do it.

Tim:

Any other conversation from the group on this?

Charles:

Mario, you want to weigh in on that one at all? What's your recollection?

Mario:

I think we have had a definite change in the inflation factor than we've seen in the past. When inflation was tracking near 2% or less, it made sense to wait the three years. I definitely think it's worthwhile to make the adjustment at this point. There has been an increase in activities that I've been made aware of as far as looking at potential acquisitions of non-core, I'll call it. Sorry for using an old term. Which has given obviously the authority members more work that they've been working on, as well as staff. I know Rochelle has been running around doing that. So I can definitely support if that's in the form of a motion to make an adjustment this year.

Tim:

Yeah, I think we would probably use Charles' recommendation as the finance guy here and look for a second on that. So Charles-

Jamie:

I'll second it.

Tim:

Okay, so we have a second from... That's not Jamie. That is Michelle.

Jamie:

That is Jamie.

Tim:

Oh, it is Jamie. Okay, okay. So given that we have a motion, we have a second, and just as a recap, we're basically really restoring pattern and we're doing it in year two of a three year pattern. And it's essentially really to bring us back up to speed, but also recognize the prior year was a belt-tightener. Now we're loosening the belt, but they've also demonstrated more workload so that's a level of seriousness, I think. Any other comments? Anything before we go for a vote on this as a recommendation to bring to the RPB?

Jay:

When would be the next look-see at it? Are we looking at a three year period?

Tim:

No, we review this again next year, but that would be the third year in what has generally been a three year cycle?

Jay:

Yeah, this would be ending the current three year period-

Tim:

Yeah, right. This would be an increase that would begin June 1, 2022, correct? That's basically what's stated on that chart.

Mario:

That's correct.

Tim:

Yeah, so this is a timeliness issue. We're doing this on time, so this would be revisited approximately the same time next year.

Jay:

Okay.

Tim:

Anyone else? Okay, so I'm going to call for a vote on the recommendation. All those in favor?

All:

Aye.

Tim:

Okay, sounds like we have a unanimous, but I'll ask if there's any opposed. There are none opposed. So we would recommend a forwarding of this to the RPB. That is correct?

Mario:

Correct.

Tim:

Okay, thank you, Mario, for that clarification or that whatever.

Mario:

And will you bring that motion in, Tim?

Tim:

I will be more than happy to bring that motion. I will pretend to be extremely reluctant, but I'll support it nonetheless.

Mario:

Otherwise, I have to text you five minutes before the meeting.

Tim:

You should do that just as a matter of course because I'm always looking at my texts. Okay, well that was easy.

Tim:

Okay, then the next item is really basically just a reminder that the committee member attending the authority meeting Thursday, February 24th is... You know who you are so you'll be there. It is Charles. Correct, Charles? So noticed. Okay, good. And then any new business? I have none. Any other members dying to give us some new business?

Michelle:

Tim, it's Michelle.

Tim:

Yes, Michelle?

Michelle:

I have an issue. I was supposed to go to the March authority meeting and I'm unable to due to work.

Tim:

Oh, okay. Well, just reflecting upon the minutes, I don't know who covered January. Who covered January?

Jennifer:

It started in February. So February is the first month for finance committee members.

Tim:

Understood. Okay, fine. So we're just basic-

Charles:

What is the date of the March meeting?

Jennifer:

I believe it's March 24th.

Tim:

It is the 24th. It is the 24th.

Charles:

I can't switch, I'm sorry.

Tim:

I can do a quick look just to see where I'm at.

Jamie:

You can schedule me in if nobody else can do it, but if you want to do it, Tim, by all means I'll just be your back up.

Tim:

Well, I am scheduled for the 28th. I don't think I get to do two.

Mario:

28th of April?

Tim:

Yeah, I'm on for the 28th of April and March 24th... Yeah, I could make that switch if that's going to accommodate anybody. Michelle, could you switch to April 28th or is it still too hard to know? Could I just simply volunteer for both?

Michelle:

It's too hard to know with COVID and the way the hospital is. That's the problem I have.

Tim:

Yeah, I understand. Well, at least we know. So we'll basically switch me to the 24th and then we'll figure out what's going on next month. Is that simple enough?

Michelle:

Thank you.

Tim:

Okay, thanks for bringing that up. It's timely enough that we can adjust. Okay, now where's my agenda? That's the end of it, guys. We had no new business, so that was just a housekeeping thing. So we're at that moment of adjournment.

Tom:

[crosstalk 00:46:23] Adjourn.

Tim:

Yes, Tom. We have a motion from Tom. A second?

Charles:

Second.

Tim:

All those in favor?

All:

Aye.

Tim:

Aye. Thank you all. Thank you all very much. We'll see you again soon. Bye-bye.