REPRESENTATIVE POLICY BOARD

FINANCE COMMITTEE

OCTOBER 2, 2023

MEETING TRANSCRIPTION

Vin:

All right, I thank everyone for coming and we will start with our safety moment, our fall driving dangers and tips to stay safe. Remember it is getting dark, make sure your headlights are working, be aware of animals, the slippery leaves, sun glare, et cetera. Just drive safe when you are out there. Be mindful of the time of year that we are in. Let us move on to a review of the fiscal year 2023 audit results. We have Mr. Flint and Mr. Epstein.

David:

Good afternoon everyone. My name is David Flint from CLA. Can everyone hear me okay?

Jennifer:

Yes, we hear you.

David:

Okay. All right, everyone can see my screen?

Jennifer:

Yes.

David:

All right, great. So quick agenda for this afternoon. I'm going to cover the audit scope, reporting results, some high level financial highlights and then just discuss the required communications that you have all should have received a copy of. All right, so audit scope. Under generally accepted auditing standards, we expressed an opinion on whether the basic financial statements fairly represent the financial position and results of operations in accordance with generally accepted accounting principles. Also, under governmental auditing standards, we provided a report on internal control over financial reporting on compliance with laws, regulations, contracts, and grants. This second report is more commonly referred to as the yellow book letter and it is included as the second report or the second opinion, if you will, in the federal single audit report that you all have.

We also completed a federal single audit under uniform guidance, which includes an opinion and compliance for the major federal program, which was the Drinking Water Program, as well as provided report on internal control over compliance with this major federal program. So onto the results, so for the financial statements, we issued an unmodified opinion for the period ended May 31st, 2023. Just to be clear, unmodified opinion is the best opinion that can be given. Regarding that yellow book letter that I had mentioned, we did not have any findings related to internal controls of our financial reporting. Also regarding compliance with laws, regulations, contracts and grants, we did not know any instances of non-compliance.

For the federal single audit, we had one major federal program that was audited. Its official name is Capitalization Grants for Drinking Water State Revolving Funds, more commonly referred to as the Drinking Water Program. And this program has both a grant and a loan portion of which both were expended in fiscal year 2023 for a total of just under $2 million. We issued an unmodified opinion on compliance requirements for this program, which again is the best opinion available. We also had no internal control findings as it relates to this program's compliance.

So I did throw this new slide together for this year changes for 2023, as there were some significant changes. First and foremost, we implemented a new accounting standard GASB 87, which has to do with leases and the Authority has significant leasing activity both as a lessor and as a lessee. And implementing the standard was a pretty heavy lift for you for this year. There were well over a hundred contracts that we initially looked at. After going through those preliminary, we ended up analyzing 47 contracts as part of the standard implementation. So as part of implementation of this standard, there's four new things on your balance sheet. And in regards to contracts where you are the lessee, you now have a right to use lease asset, which is basically a capital asset for the value of the items leased. You have a lease liability for the future payments for that lease.

Then on the other side for lessor agreements, you have a lease receivable and then the opposite to that as a deferred inflow for leases. We also added to the back of the notes to the financial statements, some condensed financial statements. You may recall from the past that the Watershed Fund is included in your financial statements as a blended component unit. This is required to do so under GASB statement number 84. So we added these statements in so you could kind of see the effect of that broken out from the rest of the authorities' activity.

Then the final change for this year relates to the federal single audit. You may have noticed that we are no longer meeting the low-risk auditee criteria. I wanted to bring this up. This is certainly not a negative for the Authority. The first requirement to be low risk is that you had to have completed federal single audits in the prior two fiscal years. Of course, we did not have to do it last year simply because the activity was not there. So we do not meet that low-risk auditee criteria. It does not really mean too much for you. Just on our end as your auditors, we have to test a higher percentage of the expenditures for the grant.

So just some high level financial highlights here. First, we are going to look at the statement of revenues, expenses and changes in net position. Net position increased $31.4 million for the fiscal year. That is kind of like your net income for the year, which is $11 million better than 2022. When looking at operating revenues, water revenues increased by $7.5 million dollars, which is primarily due to the January 2022 rate increases. So 2023 was the first full year that those rate increases took effect, but we also saw a higher demand for summer in fiscal year 2023. So that of course was summer 2022. Other operating revenues also increased by $1.4 million, which is primarily revenues from Wells Services and more specifically, Water Systems. Water Systems was acquired in May 2022, so this was the first full year of activity.

Operating expenses increased $5.3 million year over year. A big portion of that is operating and maintenance, which increased 2.8 million and that is just general cost increases that we have all experienced due to inflation, payroll costs, cost of chemicals, cost increases from outside services. We also... again, back to that Wells Services and the Water Systems, we did have $1.4 million of additional revenue, but we also had $1.4 million of additional expense in here again, from that first full year of activity. Non-operating expenses decreased by $6.9 million year over year. This was primarily due to interest income, which increased $6.4 million. This was a combination of two things. First, 2023 included a full year of interest that was charged to customers, which you may recall was halted during the pandemic. So we had a full year of that for 2023.

And also, as I am sure you have all seen, interest rates have increased drastically. So we are able to receive a better interest rate in the market, which caused a significant increase in the income received. Also, here in the non-operating income and expenses section, you will see $490,000 of intergovernmental revenue compared to zero last year. That relates to that Drinking Water Program that we tested for the federal single audit. If you remember, it was around $2 million in total activity. This is the grant portion; the rest of it is the drinking water loan that was taken out in fiscal year '23.

So looking at the statement in net position, we have three categories here. As mentioned before, net position increased $31.4 million. Net investment in capital assets increased $11.1 million due to a reduction in capital related debt. Basically just your scheduled payments of your bonds and there was no new bonds issued during 2023 and we also had an increase in capital assets. So those two items caused your increase in your net investment in capital assets. Your next category is restricted this... excuse me, this increased by about $15 million year over year, primarily due to an increase in your restricted assets. Then finally, you have your unrestricted net assets, which is everything else that is left over that does not fall into those first two categories.

Then finally a look at your long-term liabilities. Total bonds payable for the year were about $512 million, which is a decrease of $21.5 million dollars year over year. Again, that is your scheduled payments and there were no new issuances. Drinking water loans increased by $117,000 due to current year repayments offset by that new drinking water loan that I mentioned previously. The net pension liability increased by $1.3 million due to relatively stagnant investment returns in 2023, which was less than what was anticipated offset by RWA contributions that were $2.3 million in excess of what your actuary required you to contribute.

So just to make that clear, every year your actuary gives you a number of how much you have to contribute to the pension. In 2023, an additional $2.3 million was put in, which is great. Your net OPEB liability decreased by $1.5 million dollars, mainly due to differences between expected and actual experiences when it comes to certain actuarial assumptions and also decreases in medical costs. Then again, as I mentioned earlier, we implemented that lease standard this year and you will see here we have a new category, which is lease payable, which had an ending balance of $529,000 for the end of the year.

So we have some required communications. These are all the sections in the letter you have all should have received a copy. I do not want to go through each section, but there is one section that I want to point out to you. I do not know why I cannot pull it up here on my screen. Here it is. So if you scroll down, if you have it in front of you, if you scroll down to the circumstances that affect the form and content of the auditor's report, you'll notice that in the auditor's report, which is our opinion, there is an emphasis of matter paragraph and if anything significant happens during the year that's worth pointing out, we put that in here and generally not too much goes into the opinion other than the opinion itself. But we thought that the implementation of GASB 87 was significant enough to mention and that is included as an emphasis of matter in your audit opinion for fiscal year 2023.

So here is our contact information. I just want to stress to you that if there's ever any need to communicate with us, any questions, comments, or concerns for us we're getting regarding the audit or anything to do with the financial statements, we're always available to have a discussion with you. So does anyone have any questions for me today?

Vin:

Any questions? I am seeing heads shaking no. So this is not a shy bunch, so they would have unmuted by now I am going to say. So it looks like you may have escaped those questions.

David:

Excellent.

Vin:

So thank you for your presentation.

David:

Absolutely.

Rochelle:

Thanks David.

Vin:

Okay, then. Let us move on to the approval of minutes from September 11th, 2003. Is there a... 2023. Is there a motion?

Tom:

So moved.

Vin:

Second? Is there a second?

Tim:

I will second.

Vin:

Any discussion? Hearing none. All those in favor?

Tim:

Aye.

Vin:

Opposed? Abstentions. Motion carries. Let us move on to the review of the quarterly financial report.

Rochelle:

Okay, thank you. And before I start the report, I do want to mention that we have Charles DelVecchio on the meeting with us. He recently joined as our controller. This is just his second week with RWA.

Tim:

Hi Charles.

Vin:

Welcome aboard.

Rochelle:

With that, Jennifer, are you going to share?

Jennifer:

Yes, I just need Dave to unshare the screen. Okay, thank you.

David:

All right. Yeah, sorry guys. I just want to make sure we do not need executive session or anything like that with the auditors.

Vin:

I do not believe so.

David:

Okay, so are you are okay if I hop off?

Vin:

Yes.

David:

All right. Thank you so much for your time.

Rochelle:

So I am going to start with the net position and the balance sheet. And just to put this in perspective, this is really comparing first quarter of last year, so first quarter fiscal '23 versus first quarter fiscal '24, so August of 2022 versus August of 2023. And as you would expect, our net plant is up by about 18.3 million. You can see that that is primarily in a utility plant in service. Another area that I want to mention is you can see that construction work in progress is significantly up year over year and that is really due to some of our large ongoing projects including the West River Project that we will be very close to going in service as we speak. That is a main contributor to construction work in progress being up so significantly year over year.

The current assets, you can see that current assets are up by about 2.6 million year over year. Cash and cash equivalents is up 5.7 million and the increase in cash and cash equivalent is primarily due to the year-end disposition that we did putting money into the growth fund as well as into the general fund and also a small amount of net increases across our multiple accounts within the revenue fund. You can also see, I do want to mention that accounts receivable is actually down by 3.7 million. This is good news. As you know, we've been working on getting receivables down, although our receivables are still elevated versus the pre-pandemic levels, they have come down significantly. So that is a good thing.

The next part of the assets on the balance sheet, you can see the lease receivable is what Dave just went through. So that is a new item on our balance sheet and you can see the reduction there is about $125,000. Our plan is for all the lease accounts, based on conversation with our auditors; we plan on updating this once a year. So I will represent any needed amortizations as well as any updates in any of the lease agreements. So that is our current plan there. And restricted assets that actually is almost even year over year. So just some key things that are going on within restricted assets. Our construction fund is actually down year over year by about 2.9 million. This is due to the capital expenditures that have happened between August of last year and August of this year.

Also though significantly offsetting that is our year-end disposition that we put into the construction fund, which was over $20 million coming out of last year. So even with all the expenditures year over year, we are still just about in the same place within the construction fund. And also we have had an increase in operating reserve that is a required reserve fund and based on our O&M budget for fiscal 2024, we needed to put additional monies into that reserve fund. And the other fund that has gone up a little bit within restricted assets is our debt reserve fund and that is due to funding that project when we closed on our 37th series earlier this fiscal year. Regulatory assets that primarily is represented of just the amortizations that we have across our regulatory assets that include cost of issuance and then our other various regulatory assets. The deferred inflows and outflows as it relates to pension and OPEB.

This now reflects our actuarial report of 2023 and the ongoing amortizations and the deferred charges on refunding. That is all associated with amortizations associated with our refinancing. You go now to the liability page. Just a couple key things here I want to point out. So overall liabilities are down by about 8.5 million. You can see that our non-current liabilities are down by about 10.5 million. As actually as Dave mentioned, we did not do any additional financings through the end of the fiscal year, but we did do an additional financing at the beginning of this fiscal year.

So you can see overall though revenue bonds payables are still down even with our 37th series bond issuance, just if you recall, we are financing our capital program over the 18 months that our rate application covers not just with RWA bonds but also we have... we'll be issuing DWSRF project loan obligations including for the West River Project. So that's all part of the [inaudible 00:21:14] application, but we have not yet closed on those additional DWSRF loans as well as the grants that we're going to be getting. So that is why the revenue bonds payable is down by about $6 million even with that 37th series debt issuance.

Also just want to mention on the net pension liability and that OPEB obligation, this is consistent with what David just shared with you. The pension liability is actually up by 1.3 million and the net OPEB obligation is actually down 1.5 million. In addition, this is again based on the actuarial reports; we will be updating those again at the end of this fiscal year. You can see that lease liability as well is now on our balance sheet. A couple things relative to the current liabilities, you can see that our next principal payment, which will be made in August of 2024 is 23.9 million. So that is up from our prior 22.6 million that we paid in August just a month or so ago.

Accounts payable is primarily up due to really just timing relative to the accounts payable. You see the current lease liability, so that is now split between non-current and current. Again, we will be updating those at the end of each fiscal year. I think just moving down the balance sheet here; you can see the deferred inflows. We have OPEB, pension and now leases and for the pension and OPEP, that just is the ongoing amortization now updated for the fiscal 2023 actuarial report. And then overall for the change in net position, again this is first quarter of last year versus first quarter of this year, the change in net position is actually up by $30 million, so that's good. Any questions on the balance sheet before we move to the income statement?

So here, the upper part of this page is our income statement under generally accepted accounting principles. Just a few things here that I want to update you on. But if you have any other questions, just let me know. Operating revenues are under budget by about 1.1 million. That is down about 3%. That is primarily coming from the metered water revenues that are down by also roughly 3%. And this is really due to the cool and wet summer that we have seen. We will talk more about that when we get to the maintenance test. Operating expenses is down by about 1.3 million. I will get into that in a little bit more detail later on and then if you just scroll down just a little bit more, you can see one of the positive things again so far this fiscal year is interest income is up over the budget and that is because interest rates have remained elevated. So they are much higher than what we thought they would be this year at the time that we did the budget.

If you could now scroll down to the maintenance test. So here a few key things I want to mention. We are forecasting that our water revenues will be coming in under budget. We did see that as expected, our billings were significantly lower than last year in August and actually significantly lower than our budget even though at the time that we did our budget for fiscal '24, we knew that last summer was a high consumption based on the weather pattern last summer. We did make some significant adjustments when we did our fiscal '24 budget, but what has actually happened is this year we have almost the opposite in that we had a very cool, wet summer and we are seeing that so far. I have not yet seen September, but we are expecting that September billings will also be down. So we are forecasting an underrun there. From a good news perspective, our interest income is up and there is a potential depending on how the interest rates, if they do stay elevated, that will have a favorable impact on our forecast.

To help ensure that we meet our coverage requirements, we are now forecasting that we are going to need to keep operating expenses under budget. Larry and I did send out a communication to our employees about eliminating or reducing discretionary spending because we know that right now based on our revenue projection, we're going to have to keep O&M expenses down to meet our coverage. And we will need to, as we have been doing, focusing on accounts receivable. So this year from a weather perspective is a little bit different than last year. Also helping our overall maintenance test, we are projecting now that PILOT will come in a little bit under budget. And also for debt service payments, based on the timing of the three DWSRF projects that we're expecting to close this fiscal year, they have taken a little bit longer to close and so that actually is having a favorable impact on our debt service.

Any questions before I go to the next page? Here, I am not going to talk about this in depth, but this is where we do our sensitivities. We have chosen this year to do actually two reductions that our financials and maintenance tests would look like if there was a 5% reduction in consumption and what if there was a 10%. And really, what I want to highlight here, and if you scroll down to the maintenance test, you can see that even a relatively small change in consumption can have a significant impact. So if we stay at 5% below for the remaining months, that would have about a $2.3 million impact on our maintenance test and at 10% it would be 4.5 million. And this is why we monitor where we are quite closely because even a small impact can make a significant difference.

So here I am just going to cover some of the key variances and our O&M from a year to date basis and you can also see what we are projecting. So payroll is actually lower than budget by a little over a hundred thousand. We are seeing lower than budgeted headcount right now. We are also... though this is partially offset by a mix between our O&M and non O&M payroll. So I think you are aware that some payroll is capitalized, some payroll goes to PipeSafe and some of our other offers and then there is the operating expense piece. Operating expense percentage is running a little bit higher than what we expected. So that is offsetting to some degree the fact that we are under headcount. Employee benefits is also currently running above budget. This is primarily due to medical as well as that O&M non O&M mix.

This is something that we definitely need to keep our eye on. You might remember from presentations last year, last year we were running under in medical, so still early in the fiscal year but we will definitely be keeping our eye on that. Pump power is running a little bit under budget and we do believe that's weather related due to lower production. And it is really pump power and chemicals are the expenses that really vary the most with our production. So as you would expect, pump power is actually under budget and chemicals is a little bit under budget. Some of the other larger variances, postage is running under. We believe that is timing at this point. Collection expense is also running under, that is lower bank fees and some higher rebillings that we rebill associated with our collection activities. Outside services is currently running lower than budget by just about 300,000. So those are the key variances and as I mentioned, we are currently projecting and working towards making sure that we stay under budget given that our revenue projection is currently under budget. Any questions before we go on to capital?

Tim:

Yeah, Rochelle. Outside services, that seems kind of significant. Could you dig into that a little bit more?

Rochelle:

So there is a couple things. First, our outside services is quite a bit higher this year because of the CIS backfills. So we are starting at a higher number and right now, the underrun is across multiple areas. That is actually a line item that we are projecting, been seeing the outlook that although some of that is timing, we are going to try to keep that line actually coming in under budget.

Tim:

Thank you.

Rochelle:

So first, from an overall projection, we are projecting at this point that we are going to meet or exceed our 96% target. I will mention that even since the time that we put together this projection; we are working on the capital in support of our 10-year model. So I will expect that there is going to be some changes at the individual project level, but we are projecting to meet or exceed our 96% target. On the key year to date variances, just a couple that I will mention. Our Lake Gaillard Clarifier Project that is currently running over and that is really just a result of the timing of payments. Our West River Improvement Project that I mentioned earlier, that's actually running under by about 288,000. There were some material delays related to the generator and some other material delays, but the good news is we have actually commenced the startup activities and performance testing is already underway.

So that was a successful project and that project will be going into service very soon. So really good news. That is also our DWSRF project that we hope to be closing on in the next few months. Also, the

Derby Tank is another project that is under running. We did see some supply chain delays related to five butterfly valves and the associated valve ball. Delivery did take place in September. So that is really a timing related to the Derby Tank and that project is nearing completions. So those are really the key items related to capital, unless there is any questions.

So this is really the favorable impact. You can see that interest rates are higher, so our investment earnings are actually above budget. We expected when we did our budget last year that the interest rates would maybe be about 3.5% on our liquid funds and you could see that they're actually... the STIF is actually over 5%. The last time I looked, we were actually at 5.41%. So this is definitely helping this year and it is helping to offset the lower water revenues. If we just go to the next page, you can see where we are versus budget. This is on a cash basis, so this is actually interests received and it is separated between the funds for which the interest is part of our maintenance test as well as the funds that it is not. But I just want to mention, for example, on the construction fund, we are now only maturing money for each funding that we do. So the money is in the construction fund earning interest until we actually need to use it to make expenditure payments. Any questions?

Vin:

Are there any questions? All right, punch tonight. Excellent. All right. I am not trying to get anyone to ask a question either. All right, let us move on to the next item. Moving on to the RPB dashboard.

Rochelle:

So what you see here, and I just want to mention we have updated May for all our final numbers now that the audit is over. Many of the numbers did not change, but I do want to mention we actually are... our final coverage actually came out to be 1.41. So last year was a good year. For August of 2023, as I mentioned, we are projecting meeting our coverage requirement without a draw and we are working towards our global metric of being at least 118%. We talked about the capital expenditures. Good news there. As you can see that our percent spent so far this fiscal year compared to last year is significantly higher, which is a good thing. We are trying to avoid spending the bulk of the capital budget in the month of May. Another thing that we are watching closely is accounts receivable and what you see here is aged accounts receivable.

So this is over 90 days for both total water as well as just residential. And you can see that there has been a significant improvement in reducing those receivables to pre-pandemic levels, but you can also see that they are still elevated and we are working to reduce those and that is going to be important this year to meet our overall coverage requirement. Another thing that we are looking at is our pension funding. And you can see that right now our pension plan market value since August is pretty close to where it was in sort of the June timeframe. It is up a little bit from May and we are monitoring this to understand what is happening in the market, what the liabilities might be, our additional pension contribution, and some of the things that we watch on a continuing basis.

We are also watching our daily production. I think this is really telling what difference the summer makes because when you compare prior year, you can see how high our average production was compared to this year and it really points out that this year weather-wise has definitely been very different than last summer. Our disinfection byproducts, we are on a target there, unaccounted for water, we are about 11.65%. Then as we... based on all your input, we are reporting on some operational targets and you can see the results of service disruptions and how many customers were impacted. Any questions?

Vin:

Any questions? Going once, twice. No questions. Thank you, Rochelle.

Rochelle:

Thank you.

Vin:

All right, let us move on to new business. I do not see any new business. Does anyone have any? Hearing none, let us move on to a motion to adjourn.

Jeff:

If you insist.

Vin:

Is there a motion?

Jeff:

[inaudible 00:40:47] come on guys.

Vin:

Someone please help me out.

Tim:

Tim, so moved.

Vin:

I got a zoning hearing to get to. All right, let us move on. All those in favor?

Tim:

Aye.

Vin:

Opposed? All right, thank you all and thank you, Jennifer.