REPRESENTATIVE POLICY BOARD

FINANCE COMMITTEE

JULY 13, 2023

SPECIAL MEETING TRANSCRIPTION

Tim:

We have a quorum with three. It's always good to stand corrected. So we'll start today with our Safety Moment, which is actually very timely because poison ivy is really, really rampant and growing and spreading this year in my area. So there's some good tips there. One is not to use a washcloth and I thought that was a good idea. I naturally use a washcloth, I thought it was a good idea if you got poison ivy. Anyway, making a long story short, read that, and it might help you out. We now move to the approval of the minutes for June 12th, 2023 meeting.

Tom:

So moved.

Tim:

Okay, we have a motion. Thank you, Tom. A second?

Jay:

Second.

Tim:

Thank you, Jay. Any discussion? Okay, all in favor?

Committee:

Aye.

Tim:

Minutes are approved. We now have the RPB Quarterly Dashboard Update. Rochelle, do you want to give us a...?

Rochelle:

Sure. So we're going to start with the financials. And as was noted in the cover memo, the results that we're sharing at this point, they are still preliminary. We are preparing for our year-end audit and at the time we prepared the preliminary May information, there was certain information, I'm going to mention a few things as I go through the results, that was actually not yet available at the time. So just keep that in mind as we go through this. So utility plan is up year over year by about 19.5 million. The property plant and equipment is actually down by about 3.3 million. One of the things that we've subsequently updated is relative to the final depreciation number. And you will see, I just want to call out, that from construction work in progress, you will see that it's actually up year over year and that is primarily due, we have some very large projects that are multi-year projects, so they're not done at the end of fiscal '23.

Example of one that will be finished shortly after the end of the fiscal year is the West River project, but that is one of the reasons that CWIP is up year over year. Moving down to the next section regarding current assets, another key thing that I want to mention here, you'll notice that there's a large increase in cash and cash equivalents. So keep in mind that fiscal 2022 is after the yearend disposition. Fiscal '23, at the point the financials were prepared, was actually before, because the authority board had not yet approved the year-end disposition. So that's a key reason that cash and cash equivalent is off by 25.3 million. And we'll get into what the yearend disposition was shortly. Going down the page, still on the asset side, you can see that restricted assets, year over year, is actually down by just under 36 million. That is primarily due to the construction fund and makes up almost all of that.

So at the end of May of last year, there was still a considerable amount of unspent fund proceeds. Since that time, all the fund proceeds have been depleted. They were depleted by the end of fiscal '23. And of course we also began at the end of fiscal '23 to begin using internally generated funds to fund the capital program, prior to the 37 series financing that we very recently did. So the construction fund is the primary driver there. Also, I just want to mention on the deferred charges on pension and OPEB, all that's reflected at this point is the monthly amortizations that we do. That is one of the areas that will be updated when we get our actuarial reports for our fiscal year-end. And we'll update the deferred charges, the inflows and outflows, and we'll adjust also the pension and liabilities based on those actuarial reports.

Moving on to the liabilities side, and again, if you have any other questions, I just want to highlight some of the main things. You can see that the non-current liabilities is actually down by 27.2 million. That's primarily due to our August principal payment on our RWA revenue bonds. And then for the current portion of those bonds, which is in the section below, that's up just a little bit by about a million dollars. And as you know, we put money aside every month to fund the upcoming payment, so we'll be making our principal payment in August, so next month. You also can see some increases in the DWSRF, loans payable, in the current portion. We did two small DWSRF loans early in fiscal '23. Those are the primary variances there.

Other liabilities, just to mention that, some of you might remember our Hampton remediation. So you can see, I mean there's virtually no liability left. We will do a very final update based on the letter from the engineering firm, but you can see that there's virtually no other liability associated with Hampton remediation. As I mentioned, I'm just going down this side of the balance sheet, the inflows of resources, the pension and OPEB, that will be updated based on the actuarial report. And then you can see that the total net changes of our net position is $30 million. You go to the next page. Actually go to the page after this, Jennifer. Okay, some key things that I just want to note here. So total operating revenues are actually up by about 5.7 million. That's roughly 4% and that is primarily due to the higher consumption that we saw, particularly in the summer months of our fiscal 2023. And that's about a 4% increase versus the budget.

You can also see on Operating and Maintenance Expenses, we did underrun by about 2.9 million. That's just under 5%. So it's a relatively big number, but from a percentage basis, 5%. And I will mention that we did contribute an additional $2 million to the pension fund at the end of fiscal 2023. We were able to absorb that within our O&M budget. I'm going to get into some more details of the O&M results shortly, but at the high level you have the under run of about 2.9 million. I also want to point out, just as information, you might wonder why in fiscal '22 there's some numbers where it says, Pension Expense and OPEB Expense. What we're doing there is we're actually separating out the, what I would call, the non-operational impact of the accounting guidelines that we have to follow for pension and OPEB. So we keep those adjustments separate so we can keep the operational O&M separate from variances caused by the standards that we have to follow.

And we will be booking, that will also come from our actuarial reports when we receive them, and we'll reflect that in our audited financials. Another item I just want to call out here, you can see that interest income is significantly up over budget. We've talked about that in our quarterly updates and it's really reflected here as well. When the fiscal '23 budget was done, and in fiscal '22, the interest rates were very low and they have increased throughout the year. So this is one of the favorable benefits of higher interest rates, so we're seeing that in our financials. We will be doing a final update on our depreciation when we close out the year. So I think those are the key things I want to mention on the upper part of this page. Now on the bottom part of the page, you can see that on a preliminary basis we are projecting coverage of 140%. We had a very, very, very strong May cash receipts. May is historically a very strong month, but this particular month was particularly strong.

When we go through the dashboard, you will see that in the last quarter of the fiscal year that our AR did go down. It's still elevated, but it went down pretty significantly, and we did see that increase in our cash. And, at least from my perspective, we can't just count on May being that high month, because if it doesn't come about, there wouldn't be anything we would be able to do as far as corrective action. But we're pleased that the May cash was very strong. And it is primarily timing, so we're watching that as far as what it means for fiscal '24. The other key driver of the higher coverage we've also spoken about is that the interest income, interest income, again, because of the higher rates we did do well relative to our interest income.

And as I mentioned earlier, our O&M expenses did come in a bit under budget. And we also had a somewhat small, favorable variance in our debt service and that was primarily due to a small DWSRF loan that we thought was going to close actually a while ago. We're actually going to be closing on that in the next month or so, we hope. So we're working on that. So those are really the key drivers of our coverage. You go to the next page.

Jay:

Yes, 114 to 140 looks great to me.

Rochelle:

And you'll actually see that when we talk about the year-end disposition, how that had a favorable impact. From the O&M variances, I'm just going to highlight some of the more significant ones. So payroll remained under budget throughout the year. So from a finance perspective, that we were under headcount, actually helped. Maybe not from an operational perspective, but we did remain under headcount basically throughout the whole fiscal 2023. Employee benefits are actually up and that's primarily, though, driven by our additional pension contribution. So without that we actually would've under run. So we used, the medical expenses continue to be lower than we anticipated in fiscal 2023, we were able to take that under run and that actually helped fund our additional pension contribution that we made. Pump Power is one of the other areas that came in under budget. This is primarily due to actually lower usage that we saw. Chemicals did also come in bit under budget.

Collection expense is one of the areas, and I think we've talked about this at prior updates, where we're not quite seeing the increase that we had anticipated in our bank fees, subsequent to the conversion of monthly billing. So that is the main driver of that collection expense under run. The maintenance and repair is another area that we did see an under run. And this is primarily due to the fiscal '23 budget had assumed that we were going to use a third party to do flushing, actually early in fiscal '23, and we did not incur those third party expenses during the year. So overall the lower O&M costs did favorably contribute to our higher coverage. Any questions before I go on to the capital?

Tim:

Just a few, if I may? Because I don't know how, when you talk about the payroll and the employee benefits, obviously there's a big disparity. I presume if the payroll's down, you'd think the employee benefits cost would be down, and that's absolutely not the case. And then they're actually significantly higher. Is that just because the cost of benefits are so much higher? Is that an anomaly with how things are paid out, or am I misunderstanding the numbers?

Rochelle:

It's actually because we made a $2 million additional confirmation to the pension.

Tim:

Perfect.

Rochelle:

And without that, yes, the benefits would be lower. And to your point, Tim, there's many employee benefits that are directly related. If your payroll is under, your benefits are going to be under. And then there's a few things in there, like the pension actually, that doesn't directly vary with the number of employees.

Tim:

Okay. Now the next question relative to just the payroll, because that's a significant fund of 1.2 million, how many people does that likely represent?

Rochelle:

So at the end of the year we were under by 13 headcount.

Tim:

13. That number doesn't sound so big, but the payroll is what the payroll is. So is that across the board? Is it just a...

Rochelle:

Yes, we were under throughout the entire year, so not just sit there in one month. But we did stay under our budget and our budget, as you might recall, was already adjusted for a vacancy factor. But even with that we were remained under. In earlier months we were even more under than 13.

And this goes to some of Larry's points regarding employee retention, and getting them to come on board, you have to do this, that and the other thing. Is there just a lower, in general, pool of labor out there, would one guess? Or it's just the way it happens to be this year? Any thoughts on that, Larry?.

Larry:

We've actually been able to bring down the number of vacancies that we have. At the beginning of last fiscal year we had something like 18 positions open that we were recruiting for. That's down to around 10 at this point. So some of that is finding the people with the right skillset. That's been difficult. Some of it's due to the turnover that we have, although we've been running right around 10%. While that's high for our organization, that certainly is not high from an industry standpoint. So there's been a combination of factors. And then when that 10% leaves, then it's difficult to fill the position immediately. So that's led to the headcount. And in some cases, like our director of engineering position, that's been open for almost two years, and trying to find the candidate with the right background, for instance. We've been looking to fill a number two position for Rochelle in finance, and we've had some difficulty with that. So it's a combination of factors, Tim.

Tim:

And some big shoes really to back up.

Larry:

And some big shoes to fill. That's right.

Tim:

Right. Understood. And thank you. Anyone else on questions?

Tom:

Tim, just to let you know, I have to leave at 5:30.

Tim:

Okay, Tom.

Tom:

So for purposes of a quorum, if there's any action to take, let me know.

Tim:

Well, I thank you for that reminder, and it is getting to be such, I would like to nominate a new chairman. I don't know if we cut in here so we have the time. Would that be acceptable, just in the interest of time?

Tom:

That's fine, from my perspective.

Jay:

Yes.

Tim:

May we go off script then and move to that? I guess I'll give a preamble. I did have an opportunity to talk to Vin Marino and request to see if he had any interest in being chair. He's been on our committee for a long time, and he was in fact very interested in serving in that capacity. And I was pleased by that. And so if there was... I'll be happy to place Vin's name and nomination and invite a seconder. Jay, I think you did indicate.

Jay:

I'll second. Thank you.

Tim:

Thank you so much. Any discussion or should we just move for a vote and move on with our report? Okay, I'll call for a vote on this. All those in favor?

Committee:

Aye.

Tim:

So we have a new chairman in Vin Marino and I'm sure he's happy to know. I'll send him off a text and he can continue his vacation in Rome without any deep concerns about his fate. So that's terrific.

Tom:

Thank you, Tim.

Tom:

Okay, so thank you, Tom. So you can sign off. I know it's not quite on time yet for you to leave, but otherwise, Rochelle, I guess we're back to you.

Rochelle:

Okay.

Tim:

And thanks for that.

Rochelle:

So at a high level we were pleased, we actually came in at 99.8% of our budget, excluding our project reserve, our contingency, and state redevelopment. And I do want to acknowledge that we got support from the board for putting monies into the reserve that we didn't need in fiscal '23, but we will need for those projects going forward. So we're pleased with that result. And I just am going to highlight again some of the bigger variances. So the Lake Whitney Dam, at the end of the fiscal year versus its fiscal '23, very reduced budget because it had been reduced, came in higher than budget. And we were able to accomplish a little bit more than we had anticipated when we had moved some of the monies for the

Whitney Dam, either through amendments or into the project reserve. Filter media actually came in under and that's really was just a result of when we got the invoice in.

So we ended up paying an invoice in June based on the timing of the work and when the invoice came in. So that's a key driver there. For the West River Improvements Project, that came in over by almost 700,000. And this was also a result of doing more work than we had anticipated being able to do at the end of fiscal '23. And again, this was off of a reduced budget, because we also had moved some monies into the reserve. Service connections, just to mention those, you can see that they actually came in well over budget. And for service connections there was an increase in the service renewals, in particular in the Milford area, to prepare for the upcoming paving projects. And Capital Pipe Service Connections also came in a little bit higher, and there was more transfer work associated with Raynham Road. And we had expected some of that to be done in '22 and it was done in '23.

And just overall there was an above average volume of service transfers related to the Capital work. So those are the primary reasons for that overrun there. The Derby tank was over by about just under 425,000. And again, here we were able to do a little bit more work on that project than we had anticipated. So overall we were pleased with being able to come in at 99.8% and also being able to keep monies in reserve for projects that we knew that we would need the money for. But for a variety of primarily external reasons, we weren't able to spend that money in fiscal '23. If there's no questions, we can go on to the next page. Actually we go to the next section, Jennifer.

So as I mentioned, the favorable part of higher interest rates is actually on our interest earnings. So we did very well versus budget. And if you recall, when we did the budget for fiscal '23, the rates were very low. So you can see, for example, for the STIF rates we were budgeting at 0.5 and as of, I think it was yesterday evening, I looked, the STIF, just using that as an example, was at 5.15%. And we have kept, even... If you can scroll down, Jennifer. Even in the Construction Fund, although the Construction Fund is, the interest that we get on the Construction Fund money doesn't count towards our maintenance tests, it stays within the Construction Fund, and we're able to apply that money to our Capital programs. And that we have continued to only take out for the construction fund, the money we need for the upcoming payments for the capital program. So we keep that money invested, we don't take it out early. So that also has helped.

Jay:

Rochelle, the interest income on the Construction account, that's what you're saying is being used for the Capital?

Rochelle:

Right? You can see on this page, Jay, that even though it stays within the fund, we're able to, for interest received on a cash basis, little over $2 million. So that's really helpful. And you can see-

Jay:

That's fine. Yes. Very good.

Rochelle:

That's the end of this report, unless there's any questions? Any more questions?

Tim:

Thank you for that, Rochelle, and thank you for the interruption. So no other questions, right everybody? Okay. So we'll move along to the RPB quarterly dashboard update.

Rochelle:

Do you want to do that or you want to do the year-end disposition next?

Tim:

I didn't see it represented.

Rochelle:

So we are also very pleased with year-end disposition. You can see that we had a total available for the disposition, was actually a little over 26 million. We are required to put a certain amount into the operating reserve. We have to put one sixth of our O&M expense budget. So almost a million dollars of the year-end disposition did go into the operating reserve. And then we have discretion regarding what is left. We decided to give ourselves some flexibility, and also given that we took some money out of the general fund last year, we put an additional million dollars in. As you know the general fund can be used for any lawful purpose and we can easily, with authority board approval, when we do our next rate application, if we need to, we can move the extra million into the capital program. If that makes sense? Or if we want to keep our general fund just a little bit above that $10 million, we can do that as well.

We are also able to put monies into the growth fund. And the thought process there is, as you know, we have some pending applications. Well, one is approved and one is pending. So putting some money aside for basically those pending applications as well as some earn out payments that are part of the transactions, we wanted to put the 4 million in. And as you know, we're continuing to look at other potential acquisitions, and if we can use the growth fund versus debt financing, we want to keep that flexibility. But while still, very importantly, putting a significant amount of money into the construction fund. Because the monies that we put in the construction fund will be used to mitigate upcoming rate increase. And so we were really pleased that we were able to put little over $20 million into the Construction Fund.

Jay:

That's a nice number. I like that number.

Tim:

Right. Good job. So I guess that concludes this report. I'm not missing anything else, I can now safely move along to the dashboard.

Rochelle:

Yes.

Tim:

Thank you, Rochelle.

Rochelle:

Thank you. And I think I'm just going to quickly go through this, because some of the items we covered, so we talked about the coverage being 140 on a preliminary basis. The budget did not have a draw. We're pleased that fiscal '23 budget actually did not have a budgeted draw. And as you know, the fiscal '24 budget also doesn't have a budgeted draw. The Capital expenditures, as I mentioned, we made 99.8% of the budget, excluding the project reserve contingencies and SNR. So accounts receivable is one of the things that we are still very much watching very closely. And as we talked about when we prepared this revised dashboard, we're comparing where we are based on the pre-pandemic levels. So you can see that we are still elevated, this reflects AR over 90 days.

But you can also see, as I mentioned earlier, pretty significant reduction between the end of the third quarter of the fiscal year and the end of the fourth quarter. So while still elevated, definitely on the right track, and as I mentioned, we saw that in our cash receipts number. The other thing that we're paying a lot of attention to is also the pension market values. So you could see that at the end of the fiscal year we were up since second quarter, but actually still just slightly down from where we were at the end of last fiscal year. So we'll be interested to see what we get back from the actuaries. But the fact that we were able to make an additional contribution will help mitigate the impact of the challenging market environment. We also are continuing to attract Draft and you can see that Draft actually was slightly up from the prior year, although very close.

And as I mentioned, we did see higher consumption in the summer months of fiscal 2023. We achieved our disinfection byproducts target. We are monitoring the unaccounted for water. We will make an update based on the results. We don't have that quite yet, so what you're seeing here is through February 2023. And then we're also, at your request, reporting service disruptions. And you can see that for the number of disruptions and number of customers impacted, at least as compared to third quarter, there was a reduction there as well.

Tim:

Very good. Thank you. I like this dashboard report. I think it's working well. Okay. Well, is there any new business? If there's not any new business, we did elect the committee chair, but I did also want to thank Charles Havrda, who's served on our committee. He's no longer serving and I regret that. But I know he's a guest here tonight and I'd like to thank you Charles, for having the opportunity to serve with you on the committee. And I'd also like to thank my colleagues for the opportunity. I've led so many of these meetings over the last several years, I do appreciate it. And I won't miss having to sign the minutes, but that's okay, it's not that hard, Jennifer does a great job. She does most of the work, and I thank Jennifer also. So with that, the next time we meet, which is scheduled to be Monday, August 14th at five o'clock, Vin Marino will be our chair. And so he'll be getting all the advanced approvals on what we do on an agenda. So I'll call for a motion to adjourn.

Jay:

I'll make the motion. Oh, I'll second it.

Tim:

Thank you so much. All those in favor?

Committee:

Aye.

Tim:

Aye. Jeffrey, Kevin, thank you for being on board.

Jeff:

Thank you, Tim.

Tim:

Goodnight, everybody.