Representative Policy Board

Finance Committee

August 8, 2022 at 5 p.m.

Meeting Transcription

Tim:

Speaking of team effort, it's five o'clock. So I will call together the Finance Committee meeting of August 8th, 2022. It's five o'clock. Here we go again. Meeting, greeting all to our meeting. And we will start us off with, I believe we have a quorum. Michelle checked in. We've got Tom. We've got Jay. I saw somebody else too. Charles is here.

Charles:

I am here.

Tim:

Somehow Zoom, we get them all. This we get them partial. It's all good. Anyway, so we'll get started with our safety moment, which deals with an important topic, poison ivy. We all know that poison ivy is awful. It's everywhere, and was even the subject of a complaint in my community by a passerby. And the Authority, the Regional Water Authority took care of it right away. Had to do with side sidewalk encroachment from a poison ivy vine.

Tim:

And it had to do with the South End well field here in Cheshire, but they were right on it. Did a great job. So there's no lawsuits to worry about. So anyway, that's topical. And from there, that's the longest safety moment discussion we've probably ever had, unless someone must have thrown in their hive story. Okay. No? Good. Okay. So now we'll go on to the approval of the minutes of July 12th, 2022, dubbed a special meeting, but it was basically our-

Charles:

I'll move.

Tim:

... basic meeting. So they are moved by. Thank you, Jay. Charles moved and Jay seconded. Thank you. We've got that going. All those in favor?

Group:

Aye.

Tim:

Motion carries unanimously. And now we come to the 10-year model potential scenarios. And Rochelle, you take the floor.

Rochelle:

Thank you. And what we want to do this evening as we begin to work on the 10-year model is get your input on if there are particular scenarios or approaches you'd like us to use for the 10-year model. And what we've done for this evening is to hopefully facilitate the conversation, is we put together a very brief presentation to just go through the focus areas that we've looked at most recently. And some of the approaches and recent models. And then, after we go through this, you definitely want to talk through anything in particular that you want to see or different approaches that you'd like us to take. So going, Jennifer, to the next page. The focus areas that we have used most recently is we look at depreciation, often doing different levels of depreciation in the different rate applications that we model out.

Rochelle:

We also look at pension and in particular, what a level pension contribution might be to get to our fully funded level, as well as when we get to the fully funded level, what we would propose as far as how much of that reduction we may want to put into depreciation or put into other post-employment benefits. Doing modeling around that. Last year, one of the focus areas was commercial net revenues, and how much we're going to be able to put into the construction fund. Also last year in particular, we looked at different capital requirement scenarios, as well as assumptions regarding subsidies. And that would be, I think, another area that we will want to do some modeling. Again, as you know, we have an increasing capital program. We also have the lead and copper rule in front of us. And we don't want to put in, I think, a realistic view of what those capital requirements are.

Rochelle:

For what our revenue decline, we haven't really focused on that much as far as sensitivities, but we have continued to build in a year-over-year, 1% decline. And we definitely look at reserve fund balances, and what the assumptions are. And when we do our modeling, we definitely look at what the impact is on rates. That's a key focus area for the models, not just in the upcoming rate application, but in future applications as well. And what changing assumptions do relative to that affordability and rate impacts. I mentioned the allocation of the pension contribution. That's something that hopefully we'll be able to get to in the next couple years. And as far as the allocation of what was the pretty significant pension contributions, and where we want, how we want to address that. And then of course, as you know, we also focus quite a bit on leverage and looking at leverage over the 10 years, and even beyond.

Rochelle:

So these are some of the key areas that we've looked at. If you go to the next page, Jennifer, want to talk a little bit about the change in approach that we had last year, and what some of last year's models were and get some feedback. So one of the things that we did differently last year, as opposed to other years, we did, here's a base case and here's a target case. And then as opposed to doing multiple different scenarios, we did just a few different scenarios off of those two cases. So that, a target case, that was very much focused on what the rate impacts are. A little more aggressive in our assumptions about commercial revenues, going into the construction fund. A little bit more aggressive about subsidies as examples, versus the base case, but that was a different approach.

Rochelle:

And the different scenarios that we did look at was the base case where we were able to get to less than 7% in the first rate application within the model. That was actually the January, 2022 rate application. And we were able to keep that less than 7%. Pretty much business as usual type fund balances, 10 million in the rate stabilization fund, keeping coverage at 114 and the growth fund being in about 11.6.

In this scenario, the growth fund was used to fund commercial capital projects. We got to the pension being fully funded in 2025, and allocated that reduction in expense between increasing the depreciation and increasing OPEB. We did have a fully updated capital improvement plan. We are planning on doing that again this year, where even though we've only recently completed our capital budget, there are other changes. And we go through virtually a bottoms-up update to the capital plan.

Rochelle:

We did that last year. We did model out net commercial revenues that were reflected, included some commercial growth. I'm sorry, organic growth. We had modeled in the July transaction, which was the Roach transaction, as well as the WellSafe offering. And we kept rate applications every 18 months. And really, the target scenario, as I just mentioned, was a more aggressive version of the base case. So definitely getting to the commercial revenues to 9.2, by fiscal 2025. The Growth Fund was used to fund non-organic growth. And with the aggressive scenario, most probably needing subordinate debt to fund that commercial growth. So that was one of the assumptions. We also in the target included refinancing, which we had not previously done, definitely didn't put into the base case. We modeled some interim financing to mitigate rates, and try to smooth out the capital program and its impact on the rate payers.

Rochelle:

And we did in the target scenario, we definitely included additional grants and subsidies above what we had included in the base case. And then what we did is we took the two, the base case and the target case. And then we modeled a $30 million capital increase in both cases, a 10% capital increase, again, in both cases. So really working off the two different models in doing scenarios off of them, that was a little different approach. So let me stop and ask, did you like the concept of the target and the base, or do you like more the concept of we do a base case and a recommended case, and then we do more scenarios, which is something that we've done in prior years?

Tim:

Well, how did it all work out, I guess would be my first question. I mean, we've got one year with your trial. It seems like you came off pretty good with the target, but I guess I would raise the question if that creates any more questions among the group. Are you satisfied basically with how you approached it?

Rochelle:

I do like the approach where we do, here's a base case and here's our target. And just doing some modeling off of that, because as we put the model together, we do do it in steps. So we can see what the impacts are of the different items that we're modeling. So how much does refinancing change the model? How much does putting more commercial net revenue into the construction fund? So how does it build up to what we would consider the target? And the target is primarily driven by not exceeding a certain rate increase, especially in the next couple of rate applications. I mean, it's hard to predict way out, 10 years. All that can change. So we do focus more on the upcoming rate application, and the one after that.

Tim:

Well, how's everybody feel about the last methodology?

Charles:

I'm fine with this. It seems to be working.

Tim:

Jay, you got some input on that? I know you had some praise for everything that had been done.

Jay:

Excuse me. I was going to ask, even though it's early on, that the cash flow on a monthly basis, is that showing the flow of revenue coming in sooner to be beneficial?

Rochelle:

Actually, so far it is. We want to watch it a little bit more to see if it really is a pattern, or if it's more of an anomaly. But we do seem to be seeing more cash coming in on current month and second-month billing. So there has been a change in the pattern.

Jay:

Thank you.

Tim:

Any other questions from the group? I think one question, in all of your modeling, we haven't had to experience these bouts of inflation. How does that factor into some of your recalculating of everything and modeling? What do you have to do? Or just base it on what you think it'll be, and go with that?

Rochelle:

So for the 10-year models in the past, we've actually used CBO projections, which Elise is a source. I think realistically the last time I looked, they weren't quite out yet. I'll have to look again in the next couple days to see if they have published their percentages. I think that if they look low, we might probably want to do a model that has a higher percent increase. Because prices on certain areas are going up, and we see it in the capital program. And we saw it even for the fiscal '23 budget. We saw it in chemicals in particular, and some other areas as well. So I definitely think we need to pay attention to that. Need to pay attention to it for this fiscal year, also.

Tim:

And I know you're obviously correct, but I guess the question is when, when did they come out with those sorts of numbers? Or are you going to just work with one off the top, as you think about it, so it doesn't hold you up? I mean, how do you do that?

Rochelle:

I think usually, the update is out in time to incorporate it into the 10-year model.

Tim:

Okay. Anyone else? Okay, Rochelle, you want to go forward?

Rochelle:

So I guess my other question, and wanted to hear some input is, are there particular scenarios that you'd want to see, other than what I just talked through? And other than what we've done in the past? Are you know comfortable with the areas that we've looked at, primarily related to capital, commercial, pension?

Tim:

I just have one question, because I know this came up about two years ago when Yale talked about changing all its toilets to flushless, and things like that, were as a big customer. What is it? The biggest in New Haven, as a big client, how does that work out as a-penny-a-gallon kind of calculation? Because that we haven't really rejiggered at all. Correct? That's always been just standard and seems to work out?

Rochelle:

Well, we didn't do it last year, but a couple years ago, we did look at what if the decline in consumption was more than 1%. I think we modeled 2%. And I think with COVID and its impact, it's definitely an anomaly that we may still even be in, to some degree. But we could definitely do a scenario to show, what if a revenue does go down by more than 1% and people cut back? Or cut that because of a recession, would be another potential impact.

Tim:

Yeah. And even just increased because of a drought, or something. You know how things can happen. I don't know if it's worth doing, since you reminded me that you did it two years ago. But it's just something you think about, because it's an area of obvious concern that we seemingly have little control over.

Jay:

I was happy to see the funding for the retirement plan. Because we've been chasing that for several years now. Yes. And that was very positive, as well as the useful appreciation that goes into revenue. Yes. Yeah.

Rochelle:

Great. Unfortunately, the market's not working with us right now.

Tim:

No.

Jay:

That's not a welcome situation.

Rochelle:

But I think even our ability to put in additional, above and beyond the requirement is helping even if the market's not cooperating.

Jay:

Yeah. And Rochelle, I just said, I'll mention, and you continue to have the minimum on 114. Just I look at that as a minimum, but there's more of a opening for it being higher than that. And that's the way I look.

Rochelle:

I think what we've modeled you in that regard is that by increasing the depreciation, it would have the same effect, but give a little more flexibility than a permanent increase in the coverage.

Jay:

Yes, yes. I agree with you.

Rochelle:

Any other comments, suggestions for this year's model?

Jay:

My position is that it's well-rounded, sound and one of the models that I think right up to where we should be with the corporation. And thank you for you and your teams' good work. And good management on coming up with this program for a project.

Rochelle:

Thank you.

Tim:

I had one question, Rochelle, because I never remember long enough. When do we have an opportunity to really take a window into this? How long does your effort typically take on this to develop some scenarios that we revisit again?

Rochelle:

So for the RPB Finance, I would expect that we'll go through the details of the model at the November meeting.

Tim:

November. Okay. So that's November. Anything else? Anything from the group?

Charles:

No, I'm comfortable with it. And as far as budgeting for droughts or extremes and changes in the economy and that type of thing, those aren't the kind of things you can budget for. You just make sure that you budget to a situation where you can deal with them if they come, good or bad. So I'm comfortable with where we are.

Tim:

True. So basically, what you're saying is you don't recommend a review of that. It's a little too early. What I brought up, Charles, we don't need to look at an increase or reduction in consumption. You don't think they have to revisit that.

Charles:

No, not until it's actual.

Tim:

Okay.

Charles:

That isn't the type of thing you plan or budget for. Because anything can happen. I mean, just, to me, you budget to run a company or an organization, or whatever. And those extraneous things, you wait till they happen, and you make sure you're in a strong-enough situation that you can deal with.

Tim:

That's fine. Okay. So I think that brings us to new business. I have none to introduce. Does anyone have anything they would like to add to the agenda? Okay. It is August, and that's probably a reason. So here we are to our next regular meeting, which is scheduled for September 12th at five o'clock. I should be there. So without further ado, I'll ask for a motion to adjourn.

Tom:

I'll move.

Charles:

Second.

Tim:

Thank you all. All those in favor?

Tim:

Thanks, folks.