

## **Representative Policy Board**

### **South Central Connecticut Regional Water District**

**Issuance Test Rate Application**

**:**

**October 24, 2024**

#### Final Decision of the Representative Policy Board

A. The Applicant's Request

On July 29, 2024, 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 \$5.332 million in annual revenues over base period revenues (the “Application”). This is an increase of 3.8% 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 typical residential customer would be an increase of approximately \$1.90 per month or \$0.06 per day, or approximately 4.0%. 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 of and interest on outstanding water supply bonds, to meet the requirements of any resolution authorizing or securing such bonds, to make payments in lieu of taxes (“PILOT”) to constituent municipalities, to provide for the maintenance, conservation, and recreational use of RWA land, and to pay all other reasonable and necessary expenses of the RWA and the RPB allocable to the water supply system. 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 1-225a of the Connecticut General Statutes, the RPB was permitted to hold the hearing on the Application in person, and via remote access, and procedural requirements were met. On August 22, 2024, the RPB voted unanimously to accept the Application as complete and called a public hearing for Thursday, September 26, 2024 at 7:00 p.m. The RPB designated Jamie Mowat Young (Killingworth Representative) 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 Application. The notice was published on August 24, 2024. 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 witnesses: Rochelle Kowalski, RWA’s Vice President & Chief Financial Officer, and Charles DelVecchio, the RWA’s Controller. These witnesses 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

\$61.0 million dollars, during the 18-month period covered by the rate application, excluding monies to be held in reserve at the end of fiscal year 2025, would be dedicated to the capital program. A few of the larger projects requiring funding during the 18-month period covered by the Application included the Lake Whitney Dam & Spillway Improvements, completion of the Customer Information System Replacement, Customer Lead Service Line replacements, Lake Gaillard Water Treatment Plant HVAC, and Lake Gaillard and Lake Saltonstall Electrical Improvements. The Applicant also provided actions to implement efficiencies in capital and operating expenditures since January 2023, which included lower interest expense associated with the May 2024 refinancing reduction in debt service of approximately \$76,000, the use of approximately \$50.7 million of internally generated funds reducing debt service by \$3.2 million, and Connecticut Drinking Water State Revolving Fund (“CT DWSRF”) and Congressional Directed Spending grants reducing debt service by approximately \$282,000, resulting in an overall debt service reduction of approximately \$3.6 million.

Representative Policy Board members inquired about projections, expenses, issuance test, customer savings and benefits, strategic initiatives, non-core impact, and timing.

The OCA stated that the additional revenue is necessary to meet the issuance test and to avoid shortfalls while continuing to fund essential capital projects. The rates are just and equitable and the increase aligns with the Authority’s long term plan and mission to provide high quality water services while promoting the preservation of watershed land and aquifers. For these reasons and others provided in the OCA’s memorandum to the RPB dated September 20, 2024, the OCA was in support of the Application.

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 29, 2024.

Exhibit B - Notice of Public Hearing published on August 24, 2024 in the *Connecticut Post* and the *New Haven Register*

Exhibit C - OCA’s First Set of Interrogatories dated August 28, 2024.

Exhibit D - RWA's Response to OCA's First Set of Interrogatories dated September 20, 2024.

Exhibit E - OCA's Memorandum dated September 20, 2024, recommending approval of the Application.

Exhibit F – Application presentation from the September 26, 2024 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 comprise the "Application."

F. Analysis

The RWA continues to face significant financial challenges: a declining trend in draft of approximately 1.0% annually since 1999, and the RWA has worked continuously over the past 15 years to implement efficiencies in both capital and operating expenditures. In addition, the RPB recognizes that the Application: (1) incorporates the lower interest expense associated with the May 2024 refinancing reducing debt service by approximately \$76,000 in the maximum debt year in this Application; (2) incorporates the use of approximately \$50.7 million of internally generated funds, lowering the debt service by approximately \$3.2 million, and (3) includes both CT DWSRF and Congressional Directed Spending grants and projected grants, and other savings resulting in lower debt service of approximately \$282,000, for a total debt service savings of approximately \$3.6 million. The Application continues the 114% coverage requirement and includes a \$1.75 million increase in depreciation expense to continue to improve internal generation of funds that are necessary to sustain reserves, fund a portion of the capital program, and reduce debt leverage as developed in collaboration with the Authority, the RPB, and management to strengthen the RWA and help fund its capital program. Through the internal generation of funds, about 55% of the capital program in this Application is funded without having to issue debt, thereby helping to reduce leverage.

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 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, reduce debt leverage, and continue essential maintenance programs to provide the level of service from January 2025 through June 2026.

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.



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. There are no rate design changes being proposed in this Application. The rate design continues to reflect a volumetric charge on a per ccf (100 cubic feet) basis applicable to each meter size; the service charge also varies by meter size.
10. The 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 all or a portion of the rate increase is based upon revenues needed to cover for debt service of a new bond issue, Connecticut Drinking Water State Revolving Fund ("CT DWSRF") and Water Infrastructure Finance and Innovation Act ("WIFIA") loans for capital expenditures. The Application also includes long-term financing associated with a July 2024 acquisition.
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, including principal and interest payments on the Bonds, DWSRF project loan obligations, and WIFIA, as applicable.
12. In the Application, the RWA uses January 2025 through December 2025 to compute pro forma expenses.
13. In the Application, the RWA chose a 12-month period from November 2023 through October 2024 (the "historic period"), which had \$130,301,000 in net water sales collections, \$9,592,000 in non-water sales, \$5,026,000 in interest income, and \$680,000 in Build America Bonds subsidy, for a total of \$145,599,000 in estimated collections. The total of the water and non-water revenues for the historical period is \$139,893,000. The Applicant selected the historic period representing the lowest cash collections (at the time of the Application) in the 18 months preceding the issuance of the bonds and demonstrates a lower historical revenue than if the RWA selected a 12-month period with higher cash collections.
14. The RWA's total projected revenue requirements for the pro forma year are \$142,418,000 as set forth below:

- (a) The RWA projects \$73,295,000 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 \$9,523,000 as the total Payment in Lieu of Taxes (“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, 2023 and estimates associated with the Grand List and mill rates as of October 1, 2024.
  - (c) The RWA used \$54,323,000 in pro forma expenses related to debt service on its bonds and DWSRF project loan obligations outstanding. This total is based on the total of \$47,652,000 in maximum aggregate debt service in fiscal year 2029, multiplied by the 114% coverage requirement under the issuance test.
  - (d) The RWA used \$3,040,000 in pro forma expense related to principal and interest payments on the proposed bonds and project loan obligations. This total is based on the total of \$2,667,000 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 4.75% and a principal amount approximately \$21.5 million, excluding approximately \$1.6 million premium. This Application also includes approximately \$20.4 million of financing through CT DWSRF and WIFIA.
  - (e) The RWA used \$10,750,000 related to depreciation in compliance with the General Bond Resolution.
15. The RWA reduced its \$150,931,000 in revenues by \$680,000 to reflect the Build America Bonds subsidy in the 12-month historical period and \$5,026,000 to reflect the interest income in the 12-month historical period for a total minimum amount of \$145,225,000 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 (\$145,225,000) and the historical period total for water and non-water revenues (\$139,893,000) is \$5,332,000, which represents the minimum additional revenue requirement needed under the issuance test for the pro forma year.
17. 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 \$61 million.
20. This Application incorporates the lower interest expense associated with the May 2024 refinancing reducing debt service by approximately \$76,000 in the maximum debt year. Prior refinancing also favorably impacts this Application.
21. This Application also incorporates the use of approximately \$50.7 million of internally generated funds. This lowers debt service by approximately \$3.2 million.
22. Savings include CT DWSRF and Congressional Directed Spending grants and projected grants, and other savings resulting in lower debt service of approximately \$282,000.
23. The Application includes a \$1.750 million increase in depreciation expense to further improve internal generation of funds, provide a portion of the capital program, and reduce debt leverage.
24. In this Application, the Authority proposes to issue approximately \$23.1 million of the new RWA water system bonds to fund its program of capital improvements for approximately eighteen months, from January 2025 to June 2026. The new debt issue also includes the long-term financing associates with the July acquisition. The RWA is also proposing to finance approximately \$20.4 million through the CT DWSRF and WIFIA to take advantage of favorable interest rates on the debt financing as well as grant funding availability.
25. OCA's memorandum dated September 20, 2024, 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.
26. 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.
27. The RWA continues to face significant financial challenges: a declining trend in draft of approximately 1.0% annually since 1999, the RWA has worked continuously over the past 15

years to implement efficiencies in both capital and operating expenditures. This Application includes the following efficiencies achieved subsequent to the January 2023 rate application: (1) incorporates the lower interest expense associated with the May 2024 refinancing reducing debt service by approximately \$76,000 in the maximum debt year in the Application and prior refinancing also favorably affects the Application; (2) financing requirement in the Application incorporates the use of approximately \$50.7 million of internally generated funds. This lowers debt service by approximately \$3.2 million; and (3) savings also includes both CT DWSRF and Congressional Directed Spending grants and projected grants, and other savings resulting in lower debt service of approximately \$282,000. Together these actions result in debt service savings of approximately \$3.6 million, which benefits customers through a lower increase in water rates.

28. About 55% of the capital program in the Application is funded without having to issue debt, thereby helping to reduce leverage.
29. 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 and pursue alternative financing and grants.

### **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

**South Central Connecticut Regional Water District  
Representative Policy Board**

**2025 Rate Application**

**Exhibits**

<b>Exhibit Number/Letter</b>	<b>Exhibit Name</b>
A	2025 Rate Application submitted to RPB on July 29, 2024 (“Application”).
B	Notice of Public Hearing published on August 24, 2024 in the CT Post and the New Haven Register.
C	OCA’s First Set of Interrogatories dated August 28, 2024.
D	Management’s responses dated September 20, 2024 to OCA’s First Set of Interrogatories dated August 28, 2024.
E	OCA Memorandum dated September 20, 2024 recommending approval of the Application.
F	Application Presentation – September 26, 2024