Representative Policy Board
Finance Committee

Monday, July 12, 2022 at 5:00 p.m.
Meeting Transcription

Tim:

Okay. We begin today with the agenda for the special meeting of Tuesday, July 12th of Finance Committee. We're presenting via remote access, and we will commence with our safety moment, which is keeping bugs at bay, mostly away, protecting yourself and all that good stuff, all the stuff that makes sense. And one good thing about a dry season is that there's not quite as many mosquitoes in the backyard at night.

Tim:

So with that, I'll move along to the approval of the minutes for June 13th, 2022 meeting.

Tom:

So moved.

Tim:

We have a move from Mr. Clifford, is that correct?

Tom:

Yes.

Tim:

Thank you sir. And second I hope, discussion? Okay. I'll call for a vote on the approval of the minutes, and all those in favor signify aye.

Group:

Aye.

Tim:

Aye. Motion carries. We're now onto the quarterly financial report and year end disposition for FY ended May 31, 2022. Okay, Rochelle, take it away.

Rochelle:

So yes, Jennifer, if you start with balance sheet, that's where I will start. Just as a reminder, what you're seeing are preliminary results as we go through the audit process, as well as the year end disposition. So as I go through, I'm going to highlight certain areas where we know that there will be a change, and also just give an update as to where the results currently are.

Rochelle:

So starting with utility plant, you can see that utility plant year over year, so this is May of Fiscal '21 versus May of Fiscal '22, we are up about 14.2 million, and net plant is up 5.8 million. This is one of the areas that we are finalizing, just making sure all the in service plant has been put in service, and we do an update as far as our depreciation at the end of the fiscal year.

Rochelle:

Regarding cash and cash equivalents, this is also an area where it's important to keep in mind that the Fiscal '22 as presented is prior to the approval that we got from the authority board to do the year end disposition, which you'll see shortly. So a key driver of why the cash and cash equivalents is so different year over year does have to do with Fiscal '21 being after the year end disposition and Fiscal '22 being before. So there will definitely be a movement between cash and cash equivalents and restricted assets. This year over year is also being impacted that during Fiscal '22, we did utilize about 2.5 million from the growth fund, and that included funding a capital project, as well as our commercial enterprises venture. So more to come when we go through the year end disposition.

Rochelle:

Moving further down to the bottom part of the page, you can see that restricted assets are up by about 19.4 million. That is primarily due to the remaining amounts from our bond proceeds. So at the end of Fiscal '22, the bond proceeds were a little just under 31 million what was left, so that's pretty significant. As well as the reduction is actually due to we're actually utilizing funds, so up until the time that we got the bond proceeds, we were using internally generated funds. And again, this is prior to the year end disposition, which will actually have a pretty significant impact and will actually increase restricted assets further year over year.

Rochelle:

So that's really the primary drivers on that side of the page, unless there's questions. And if not, I'll move on to the liability and net asset portion of the balance sheet. So you can see that actually, non-current assets are actually up year over year. That's primarily driven by our revenue bonds payable, and that's primarily due to the 36 Series, in particular, the new financing that we did to fund the capital improvement projects. You can also see that DWSRF for the non-current part, we actually didn't do any new DWSRF financings during Fiscal '22. We are looking at doing two pretty early in Fiscal '23, and some others on the horizon. You could also see that the current portion of revenue bonds payable is up, and again, that has to do with just the way our structure is, as well as the impact of the 36 Series.

Rochelle:

I also should mention that when talking about the liability side of the page, both the pension and OPEB that's up above, as well as the deferred inflows and outflows, this does not yet reflect the actuarial report that we'll get as of 5/31. So based on that actuarial report, we will be updating the net pension liability, the net OPEB liability, and also the deferred inflows and outflows associated with pension and OPEB. So those are some of the key areas that are yet to be finalized. And at this point, the actuary has what they need to work through those numbers, so it'll still be a little while before we get those updates.

Rochelle:

Are there any questions on the balance sheet? If not, moving on to I would say, Jennifer, why don't you go to, it's schedule A1? So here you can see in the upper part of the page, this is per financial reporting at the bottom of the page, which I'll get to in a minute, it's under the maintenance task. So you can see from operating revenues, we're up about 3.3 million, this is earned revenue. Our operating expenses on the O&M side actually came in under budget, even inclusive of the additional pension contribution that we made in May, so that was about 4% under. Other key variances going down to still a positive increase in net position year over year. The final pension and OPEB adjustments will impact our operating expenses under [inaudible 00:12:30] being financial reporting, so that will yet to be impacted. And probably some other more minor changes as we just work through the final preparation for the audit, but not expecting anything significant.

Rochelle:

I think the good news is, or further good news is, if you go down to the bottom of the page, this is our preliminary, but again, not expecting any significant changes here from the maintenance test perspective, we're actually projecting coverage of 138%. I think you might have heard at the RPB meeting, this is actually the highest that we've had. We did hit 137% a few years back, and there's really a couple key drivers that I want to point out here. And also, when you compare where we ended the year as compared to the budget, there's a few key things that we need to keep in mind. So the budget did not include the rate application. It also had a more conservative view of what was going to happen with the conversion to monthly billing, because there was still some uncertainty about how that was really going to impact.

Rochelle:

And also what we've seen throughout Fiscal '22, is that we still had I believe some favorable impact actually from more people working at home, so our consumption, our bill consumption, and therefore the conversion of cash did not drop off as significantly as we had thought.

Rochelle:

So again, key things that were impacting, there was a one-time only impact associated with that big bang conversion that we talked about, the rate increase also had a favorable impact. And based on the conversion to monthly billing, the impact of that rate increase is actually happening earlier than it would have under quarterly billing, as far as the conversion of cash, and also, the higher bill consumption and how that was impacting our cash position.

Rochelle:

We're also definitely monitoring what the pattern is, now that we've converted to monthly billing. We are seeing, I wouldn't quite call it a pattern yet, because we want to watch it over a longer period of time, but it does seem that we're getting more conversion of cash in that first and second month that we did under quarterly billing. And again, we'll be monitoring to see if that continues.

Rochelle:

I think other things that have impacted our maintenance test is, even though we did a pretty significant new money financing associated with the 36 Series, it was structured in a way that there was actually no debt service payments in Fiscal '22. They're actually starting in Fiscal '23, so there's definitely a timing advantage of that.

Rochelle:

We also had some favorable impact of the refinancing that we did. You might recall, we did a refinancing in very beginning of January, and we also did that delayed delivery refinancing at the beginning of May. And as it turned out, in the increasing interest rate environment, that was definitely a positive impact, by locking in those prices at the time that we priced back in December, because otherwise we would not have gotten as significant savings as we did.

Rochelle:

And then other things that are impacting the coverage, PILOT came in a bit lower, and some other positive changes, including the lower O&M.

Rochelle:

So overall from a maintenance test perspective, we had really the highest year ever, not necessarily though expecting it to continue into next year. Again, some one time impacts, and we will begin to pay debt service on the new financing. And I think the other thing I just want to mention about now this year Fiscal '23, we'll have to watch carefully any uneasiness or uncertainty regarding what's happening with the economy and how that might impact our cash collections.

Rochelle:

Are there any questions?

Tim:

Just a quick question on under the operating revenues, where metered water revenues are down and a little bit more maybe than thought they would be. Does that have something to do with all the excess rain we got this year and maybe consumption was just down because of that? Is there any information on that or ideas about that? Because we build in the reductions in our calculations, so we already know we've done the 1%.

Rochelle:

Actually, I definitely need to clarify. So when we did the budget, we assumed not just the 1%, but we had to estimate what the reduction would be from a budget perspective, sort of that back to normal, when people like we thought at the time of the budget were going to be going back to the offices and such. So what we actually saw is that our consumption did not go down as much as we thought it would, and that also had a favorable impact in cash, the conversion of cash.

Rochelle:

And then again, just moving forward to Fiscal '23, we again had to make some assumptions about what really is that normal year, so we'll be watching that closely also.

Tim:

But just to be clear, I'm seeing where the actual in 2021 was 108,012, and the projected for 2022 is less.

Rochelle:

That's earned revenue. I answered the question based on the cash. So earned revenue, a key difference is, the big bang conversion to monthly billing had no impact at all on earned revenue, because it's based on when it's earned and not when it's billed.

Rochelle:

And then to your point Tim, I was looking down below, not at the top part, Fiscal '21 was absolutely impacted in a significant way by COVID. So it was significantly higher, in fact there was actually an increase versus a decrease. So it's actually not surprising that from an earned revenue perspective, that '22 was lower, because you can see that the budget was 104, but it came in at 106.

Tim:

Right. So there you were more guessing and you got a better surprise, basically. Okay, I follow. Thank you.

Jeff:

Mr. Chair, can I ask a question?

Tim:

Sure, of course.

Jeff:

Thanks. Hey Rochelle, and you may not have concluded your analysis yet so this may be a premature question, do you view the 138 as an aberration, kind of the product of a perfect storm, or do you view it as, hey, we need to take a look at our 10 year plan, our model, based on what we learned from Fiscal Year '22 and maybe make some adjustments? Or does the fact that we're all staring down the barrel at a potential recession mitigate those types of thoughts?

Rochelle:

I think it's an aberration that we're this high, because like I mentioned, the one-time impact of the conversion on a cash basis, not paying debt service, which we're going to be paying in Fiscal '23. So I think it's mostly an aberration. I think some things might continue, we do tend to underrun O&M, for example.

Jeff:

Yep, got it. Thank you.

Tim:

Anything else?

Rochelle:

Moving on to the next page, I'll just talk here about some of the key variances, and if you have other questions, just let me know. On the O&M side, one of the favorable impacts from a financial perspective, not necessarily operationally, is payroll is actually down by over 1 million. You can see another favorable impact, which can go either way is, our medical was actually significantly less than the budget. I think you're all aware that we're self-insured, so some years it's high, some years it's low, so that was a favorable impact. And then you can see in the pension contribution, we were able to make that additional pension contribution of a little over a 1.1 million, and even with that, come in lower on the O&M side.

Rochelle:

A couple of other larger variances is, even outside services did come in lower. Collection expense also came in a bit lower than we expected. We actually expected a more significant increase actually with the conversion to monthly billing, and it didn't quite happen as budgeted. That's another area where we'll be watching closely.

Rochelle:

The other couple of things I will mention, I think you probably heard maybe a little bit when we've done commercial updates about the lab, so it had some overruns on the outside services side, but it's actually being partially offset on the O&M side. So that's more the mix of internal versus external, is about the 295,000.

Rochelle:

So those are some of the key drivers of the O&M, but overall we were under by about 4%, even with that additional pension contribution.

Tim:

Rochelle, is the outside services all outside services, not specifically the lab services?

Rochelle:

Our outside services here is more, think professional services, some of our consultants, so that did come in lower. You can see the budget was higher than last year, and that includes things like the legal fees, the trustee fees, all that.

Tim:

Okay.

Rochelle:

Any other questions here? If not, I'll move on to the capital. And first, I'll just mentioned that overall, we did achieve our 96% target. It was pretty close this year, working with both boards and definitely a cross-functional team, we were able to identify the key projects that were impacted by supply chain and got agreement to move those dollars into reserve, which we did. So we ended the year with a capital expenditure of just over 29.6 million, excluding the commercial billing and the S&R.

Rochelle:

Some of the key variances I'll mention is the Whitney dam actually came in under by about 163,000. That was mainly because we were watching very carefully what we were spending pending the approval, because we were approaching the $2 million amount. So thanks for all the support in expediting that project.

Rochelle:

The lake Saltonstall electric upgrades, that came in under by about a 107,000, and that had to do with the timing of reaching agreement with a couple of consultants that we were working on, and that project will continue into Fiscal '23. This is also the project that we're working through the process because we're getting funding from the congressional directed spending, so we're working through that process for the first time.

Rochelle:

The lake Saltonstall chemical treatment system improvements, that actually came in over by about 216,000. We were able to do more work in Fiscal '22 than we had expected, and that project continues into Fiscal '23.

Rochelle:

Another project that actually helped us achieve our 96% goal was West River water treatment plant. We had moved considerable dollars into the reserve, but we were able to do a little bit more than we had expected in Fiscal '22, and that project also continues into Fiscal '23.

Rochelle:

With the [inaudible 00:27:34] Derby tank, that was another one that we were able to do a little bit more in Fiscal '22 than we thought, so that project ended up being over by about 185,000.

Rochelle:

Under general plant, there was a project, it we've renamed it now, but it was called SAP enhancement pack in HANA, that's actually going to be replaced by the CIS project, that's a pending application. And that project did not have anything that qualified at the time as a capital expenditure, so that project did underrun for the year. Monthly billing actually came in a little bit lower, so that was an underrun.

Rochelle:

And then the RTU project, which is going to be DWSRF funded project that came in over by about little over 230,000, and we were also able to do a little bit more than we had expected on that project as well.

Rochelle:

So overall, there was definitely a lot of moving parts, especially being impacted by supply chain, and getting agreement that we could put some money aside for West River, for some of the water treatment plant projects and the Derby tank, knowing that we would need those funds going forward.

Rochelle:

Any questions on the capital?

Rochelle:

Another positive news on the interest earnings which is on Schedule D, this turned around from earlier in the year. The interest rates are up versus our budget, so it's finally having a favorable impact from an interest earning perspective. And I think the good news, at least for Fiscal '22, is we locked in at the lower rate with our 36 Series financing. We will be getting updates for our 10 year model as to what the best view is of the outlook for the interest rates for our next financing. But interest earnings is having a favorable impact towards the end of Fiscal '22. And Jennifer, I just want to go to the next page. You can see that we actually ended up after being under earlier in the year, a little bit over.

Rochelle:

We are looking at opportunities to convert some of the money into midterm securities while the interest rates are higher. I think I mentioned we try to balance, with the STIF, we get money every month, with some of the other securities, they only pay out twice a year, maybe four times if it's a quarterly payout, so we're looking at balancing that.

Rochelle:

And from the construction fund perspective, even though the interest from the construction fund actually stays within the construction fund, we converted actually a while ago to only drawing down the money as it's needed so it can earn interest.

Rochelle:

Any questions on any aspect of the financial package?

Tim:

Good job.

Rochelle:

I think is next on the agenda the year end disposition, or is it the dashboard?

Tim:

It's the dashboard.

Rochelle:

It's the dashboard.

Tim:

Oh, actually, they were combined. So I think you can move along to the year-end disposition.

Rochelle:

So for the year end disposition, this is good news. We were able to put just under $22 million into the construction fund, so that's definitely going to help with upcoming rate applications. So that was definitely because of our, you could see it, when we're at 138%, we have more money available, so definitely the bulk of that money went into the construction fund to mitigate future financing.

Rochelle:

A couple other things that I'll mention, we did have to put money into the operating reserve. The operating reserve has to be funded at one sixth of the upcoming fiscal's year O&M, so we had about 422,000 that we had to put into that fund. And then what we did with the growth fund is, we wanted to at least replace what we had used during Fiscal '22, and if we could, put in some additional money.

Rochelle:

So from the pure year end disposition, we put into the growth fund not quite what we had used during the year, about 2.3 million. But then what we ended up doing is, we ended up putting some of the excess that we had in the general fund into the growth fund, to help bump that up, but without taking away from the construction fund.

Rochelle:

And I do want to mention, if monies are not used within the growth fund, they can very easily be put back into the general fund, but once monies are put into the construction fund, they really need to stay there. So we try to balance all the different ways that we could do the distribution, definitely focusing on making sure that the construction fund was amply funded and met all our requirements, and then we were able to do a little bit more than we thought with putting some monies into the growth fund.

Rochelle:

Any questions on this?

Tim:

Well, I guess we can move along then Rochelle.

Rochelle:

Okay. From the dashboard, I'll just mention a couple things that we didn't cover through the financial reporting. There actually is not an update on the customer satisfaction, but there's definitely some Fiscal '23 initiatives regarding conducting customer satisfaction surveys, as well as like the annual survey that we've done in the past, as well as some transactional surveys.

Rochelle:

From the credit ratings and the water rates, there are no updates. The water rates will get updated with our next official statement, and our credit ratings will also be looked at that time when we go out with new financing.

Rochelle:

I think we pretty much covered the financial metrics, both our earned revenue, the O&M capital expenditures, cash coverage. A couple of the non-financial items are the disinfection byproducts, we did achieve that goal. And that is as of the March 31st, 2022 update, that's updated quarterly.

Rochelle:

I do want to mention on unaccounted for water a couple of points. You're probably aware that we did have a large leak, this was that first time ever Boil Water notice. We do think that has attributed to the increase in the unaccounted for, so that we believe has an impact there. And I will mention that this is a focus area for Fiscal '23, we actually have a metric to reduce our unaccounted for by 18 million gallons. So there's an effort to really closely look at that, possibly partnering with a firm that can utilize some AI and machine learning to help us focus on the unaccounted for water and help to reduce that.

Rochelle:

The reservoir levels at this point are probably very dated, you probably have already had an update, but they did remain strong through the end of the fiscal year.

Rochelle:

Any questions?

Tim:

Yeah, could you just refresh my memory, where was that large leak area? I remember there was a notice that came out about boiling water, all that good stuff.

Rochelle:

It was in Hamden.

Tim:

Hamden, okay.

Tim:

So that's the report, there's no questions I see. So we'll move along to new business. I have none, does anyone have some new business they like to offer? I'm seeing none, hearing none.

Tim:

We move on to the election of a committee chair for 2022, 2023. And with that, I know that's been on the agenda, it wasn't discussed really at the last moment, but does anyone want to be chairman, besides me? It's a funny question to ask, but I figure I have to, that's usually what happens. So I guess hearing no outcry, not to say the outcome is clear, but there should be someone to advance my name. And having asked Jay to do it, and he's now silenced, Charles is going to come to the rescue.

Charles:

So moved.

Tim:

Very good. Thank you, Charles.

Tom:

I'll second.

Tim:

There's a second. Thank you very much for the second. So there's no further discussion. There should be an election, so all those in favor?

Group:

Aye.

Tim:

Okay, fine. Well, thank you. Happy to serve, happy to be on board for another year, it's a great group. And with that, we won't share any more accolades, and we'll see if we want to move for an adjournment.

Charles:

Well, I think you've done a great job and I'll move for adjournment.

Tim:

Thank you, sir. Thank you for that, Charles. All those in favor?

Group:

Aye.