SPRINGFIELD WATER AND SEWER COMMISSION

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Established

1996

Minutes of Meeting **March 31, 2022**

The Springfield Water and Sewer Commission held a hybrid meeting on March 31, 2022. The meeting was held in accordance with Chapter 22 of the Acts of 2022.

Chairwoman Otero called the meeting to order at 9:01 a.m. and announced the Commissioners that are participating. Secretary for the Commission Jaimye Bartak called the attendance roll:

William E. Leonard, Present
Daniel Rodriguez, Present
Vanessa Otero, Present

Also Present
Joshua Schimmel, Executive Director
Norman J. Guz, Commission Counsel
Anthony Basile, Comptroller
Domenic Pellegrino, Director of Finance
Bill Fuqua, Director of Wastewater Services
Darleen Buttrick, Director of Engineering
Jim Laurila, Director of Water Operations
Ryan Wingerter, Deputy Director of Field Services
Jaimye Bartak, Communications Manager/Secretary for the Commission

Participating Remotely
James Richardson, Director of IT
Theo Theocles, Director of Legal Affairs/Chief Procurement Officer
Katie Shea, Educational Outreach and Communications Specialist
David Hyder, Stantec (Consultant for the Commission)
Tracey Moher, Stantec (Consultant for the Commission)

New Business

1. Discussion of Draft FY23 Budget Process.

Executive Director Josh Schimmel reported that the intention behind the meeting was to share the draft proposed budget and the process of developing it, as well as to generate discussion among the Commissioners and provide an opportunity for them to ask questions.

Commissioner Otero remarked that she hoped the Commissioners could arrive at a united consensus as to how to best move forward with the draft budget.

Mr. Schimmel presented an excerpt from last year's budget presentation, which showed last year's projections. Mr. Schimmel explained that financial models are utilized to develop, forecast, and test the draft proposed budget. Mr. Schimmel noted that debt-service coverage is the driver of rate increases.

Revenue must be generated to cover debt service. Mr. Schimmel pointed out that the Commission's financial policies and bond covenants serve as guardrails to the budgeting process.

Atty. Norm Guz explained that if the debt service ratio goes below 1.4, bond covenants require an independent engineer evaluate and approve the budget. Director of Finance Domenic Pellegrino added that the Commission's financial policies state that the debt service ratio cannot be below 1.5 for more than two consecutive years, and that S&P have referred to the financial policies to support the Commission's bond ratings.

Commissioner Rodriguez asked what happens if the debt service ratio is violated. Mr. Pellegrino responded that the Commission's bond rating could be downgraded. Commissioner Rodriguez asked when the next bond rating review would be. Mr. Pellegrino responded in 2023.

Mr. Schimmel pointed out the potential monthly combined household bill for Springfield. Commissioner Rodriguez noted similarities between retail and wholesale rates. Mr. Schimmel responded that wholesale rates do not account for operations and maintenance of distribution infrastructure, and wholesale communities do not have CSO regulatory obligations like Springfield.

Mr. Schimmel continued that the debt coverage ratio is considered overleveraged at the 30% mark. While it may be typical for utilities to approach 50%, rating agencies see over 30% as a negative. Mr. Schimmel noted that despite having approximately $.5 billion in work on the horizon, the financial panels showed that the Commission is not over-leveraged and in good financial position due to planning, steady investment, and foresight.

Commissioner Otero asked if the work ended in 2027. Mr. Schimmel responded yes. Commissioner Otero asked whether the debt starts to be paid in 2027. Comptroller Anthony Basile responded that after FY28, financing is already in place so repayment begins to drop off.

Commissioner Otero noted that it was important to articulate to customers that rate increases will begin to fall when work is complete.

Atty. Guz commented that WIFIA allowed the Commission to sculpt its repayment schedule. Initial WIFIA repayments are lower, and as existing debt retires, WIFIA loan payments will increase. That means that the Commission does not need to repay 1/30th of the 30-year $250 million loan in the first year. This is in order to attempt to level rates in the future.

Mr. Schimmel added that sculpting debt service payments avoids spikes in rates. In 2020, rates needed to increase to also cover operations due to the pandemic. Commissioner Rodriguez noted that in 2020 revenues ended up higher than costs.

Commissioner Rodriguez asked if the project schedule lines up with the debt schedule. Mr. Pellegrino responded yes.

Mr. Schimmel pointed out a target keeping five months of operating expenses available, and that the Commission's finances are healthy in that regard. Mr. Basile added that in this plan, more cash will need to be generated to advance funding for capital projects as monthly expenditures rise.

Commissioner Otero asked if Commissioner Rodriguez had a concern about revenue projections. Commissioner Rodriguez responded that he noticed that in the past two years revenue assumptions have been too conservative, and the excess revenue does not help with future debt service coverage.

Commissioner Otero asked Commissioner Rodriguez his position on surplus revenues, and whether he felt it was due to the financial modeling being built around debt service coverage. Commissioner Rodriguez responded that he felt the assumptions were too conservative, and that his concern is with the Commission's financially vulnerable customers. He also noted that he receives questions as to why wholesale communities pay less monthly charges for the same water.

Commissioner Otero noted that there is not enough affordable housing stock in the wholesale communities, which is rooted in racism. Water affordability issues in Springfield are rooted in the increasing cost to deliver water. Commissioner Rodriguez responded that the best way to support the community's most vulnerable residents was to make sure the rate increase was as tightly tied to the cost to deliver water as possible.

Commissioner Rodriguez continued that he understood the model needed to be conservative, but was concerned about the impact on ratepayers, especially if revenue assumptions prove to be too conservative. Mr. Pellegrino noted that becoming less conservative could lead to future spikes in rates. Commissioner Rodriguez responded that the Commission has outperformed its debt service ratio, which is good, but that over-performance has an impact on a disadvantaged community and that his issue was with raising rates too soon.

Mr. Basile explained that excess revenues are rolled into unrestricted cash, which needs to grow due to upcoming work. Mr. Basile continued that rates are not raised to increase cash or the stabilization fund, but any remaining unrestricted cash is put to good use in necessary capital projects. Mr. Schimmel clarified that unrestricted cash is put into the working capital account, which is currently being utilized due to inflation. The CIP reserve can also be used to fund projects instead of relying on bonds.

Commissioner Otero asked the other Commissioners that whether they supported the use of unrestricted cash to manage other potential risks. Commissioner Rodriguez responded that he believes the Commission utilizes unrestricted cash well, but is considering the perspective of the ratepayer who may perceive extra funds as going towards lesser-priority projects.

Mr. Pellegrino responded that prior to WIFIA, the plan was to fund projects with cash, and excess cash could go towards unplanned projects that come up at the time. Mr. Schimmel clarified that the plan to use cash was developed before the need to build a new water treatment plant arose. The new strategy is to borrow to build the new treatment plant, and the proposed rate increase generates cash to front that capital spending. Then as the outlays for the capital program are finished, cash is generated for future projects.

Mr. Schimmel continued that swings in residential usage can impact projected revenue by as much as 30%, as occurred last summer. Not being conservative enough can lead to spikes in rates. Mr. Schimmel noted he understood the optics, but meeting the debt coverage ratio was intended to protect residents.

Commissioner Otero noted that the need to be strategic about the future has been left out of the story, and that excess revenues need to be explained in that context. Commissioner Rodriguez agreed. Mr. Schimmel replied that excess revenues are not planned. Commissioner Rodriguez responded that when less is spent than what was collected, the rate increase was too high.

Mr. Basile noted that revenue projections will underperform this fiscal year, and more will be spent in operations, resulting in an anticipated zero balance. Mr. Pellegrino emphasized that it is important to remember that revenues are dependent on the weather. Water consumption is projected based on 3-year averages. In a rainy, cool summer, consumption (or revenues) will be lower than projections, such as in 2021. In a hot, dry summer, consumption (or revenue) will be higher than projections, as experienced in FY2020.

Commissioner Otero asked what strategies there were to tighten the revenue assumptions. Stantec consultant David Hyder responded that utilities have to be conservative because their revenues are driven by the weather. Mr. Hyder noted that with a $.5 billion work plan starting during the pandemic, the Commission's steady rate plan is impressive. If the Commission is less conservative in its assumptions, the violation of the financial policies will lead to spikes in rates in the future. Excess revenues can go to reducing rates in the future or capital projects. Mr. Hyder commented that the Commission is currently embarking on generational work that will set the utility up for a strong future. Some utilities are already spending 50% of their revenues on debt service and taking on a lot of work in addition. Mr. Hyder pointed out that the Commission's consumption last summer was at a 15-year low due to rain, which is why utilities have to be conservative.

Atty. Guz noted that it is healthy for Commissioners to question the assumptions and rates. In comparison to wholesalers, their policies bar low-income people from moving into their communities, and they are not currently making large investments in their infrastructure, so they are not struggling with these questions like the Commission is.

Commissioner Rodriguez responded that the future needs to be funded in a way that does not stress ratepayers today. Excess revenue can be applied to OPEB, stabilization funds, and a rate decrease too.

Mr. Schimmel commented that there is a strategy in allocating excess revenue, and that the Commission's vision is well beyond the next three years because infrastructure is being built for the next 75 years. Despite that, only modest rate increases are on the horizon. Mr. Schimmel stated that his team understands the need to keep the rates as tight as possible, and has the appropriate sensitivity to the Commission's customers. Mr. Schimmel noted the Commission was the first utility in the state to have a LIHEAP-based customer assistance program.

Commissioner Otero recommended succinctly telling the story of when the construction and rate increases will end, what excess revenues are used for and why, and repeating.

Commissioner Otero asked why grant assumptions were low when infrastructure bill debt relief is available. Mr. Pellegrino responded that debt relief is only realized in the financing of a project, but the full amount of the project still needs to be appropriated since that full amount will show in the cash flow.

Atty. Guz noted that usage is going down in the city, including from Solutia. The weather and consumption patterns impact revenue assumptions.

Commissioner Otero asked whether proposed unfunded positions are still needed. Mr. Schimmel responded that there are 8 positions that can remain unfilled but unfunded for this year. Mr. Basile added that there are about 20 vacant open positions that are funded at 50%of the positions' total annual salary.

Commissioners voted unanimously for a 10-minute recess at 10:35 a.m.

Commissioners voted unanimously to return to open session at 10:45 a.m.

Commissioner Rodriguez asked whether next the next year's draft budgeted rate is used when projecting revenue based on consumption. Mr. Pellegrino responded yes, the next year's effective rate is used, which is based on the budgeted rate.

Mr. Schimmel described the graphic of the 3-year CIP and detailed 5-year CIP.

Mr. Schimmel reported that in an upcoming meeting with WIFIA, the finance team will be proposing shifting more CIP funding to SRF due to inflationary costs. Mr. Schimmel noted that the Commission is in line to receive infrastructure bill funding due to its utilization of the SRF. Commissioner Rodriguez noted that many larger grant funds can be obtained just by being prepared.

Mr. Schimmel noted the current challenge in the water sector is how to entice utilities to use the SRF. The Commission is unique in that it has a WIFIA loan, is an Environmental Justice community, and is using SRF funding as a match for the WIFIA loan. Atty. Guz added that the SRF funding allows the Commission to take full advantage of the WIFIA loan. WIFIA loans traditionally only fund one project, but the Commission used the WIFIA loan to fund over 10 capital projects.

Commissioner Rodriguez asked what was in the loan service charge and why it changed from year to year. Mr. Pellegrino explained that there is a financial administration fee usually associated with closing SRF loans, which have been waived the past few times.

Mr. Schimmel concluded that staff have been actively managing the annual budget all year long. CIP revenue projects have been cut or changed funding sources, but the projects are unavoidable.

Commissioners set the next meeting date to April 14 at 9 AM.

Commissioners congratulated Jim O'Connor on his retirement from the Commission.

Commissioners voted unanimously to adjourn 11:13 a.m.