



Established

1996

SPRINGFIELD WATER AND SEWER COMMISSION

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SPRINGFIELD WATER AND SEWER COMMISSION

Minutes of Meeting

April 24, 2019

The Springfield Water and Sewer Commission held a meeting to review Financial Planning and Capital Improvement Plan (CIP) for FY 2020 at the John J. Lyons Administration Building, Agawam, MA, on April 24, 2019.

Chairman Daniel Rodriguez called the meeting to order at 9:04 a.m. and Acting Secretary Mildred Colon 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
Robert Stoops, Chief Engineer
Frank Zabaneh, Senior Engineer
David Szymczakiewicz, Senior Project Engineer
James Laurila, Director of Water Operations
Dan DiRienzo, Director of Field Services
William Fuqua, Director of Operations Wastewater
Steven Frederick, Deputy Director of Wastewater
Joseph Kruzel, Asset Maintenance Manager
Mildred Colon, Acting Secretary of the Commission
Jaimye Bartak, Communications Manager/Secretary of the Commission (arrived 9:20 AM)

New Business

1. Upon motion duly made by Commissioner Otero and seconded by Commissioner Leonard the Commissioner voted unanimously to appoint Mildred Colon as acting Secretary until Secretary Jaimye Bartak arrives.
2. Review of Long-Term CIP

Joshua Schimmel commenced the meeting by indicating that the Commission's attempt to review its financial planning and strategies and capital projects is to inform the Commissioners of what the projects are and how they are impacting the budget process. The proposed FY 2020 budget is a 20-year plan.

Joshua Schimmel distributed a worksheet detailing the budgeting process to Commissioners for review. He noted that a third party had been brought in to review and work with the staff on the system so they could understand the process in depth. This budget is different than historical budgets due to its longer-term accuracy from recent completion of master planning activities, long-term financial planning and strategy development, and the absolute need for investment. It is imperative to plan longer-term due to the aging and failing infrastructure, pending regulatory changes, and our ability, or lack thereof to comply with existing regulations. Master planning has \$875 million in planned capital improvement spending over the next 20 years and the financial plan will show that we can implement the plan and maintain modest rate increases that are appropriate in terms of affordability to our customers.

Mr. Schimmel pointed out that the revenue bond increase in FY 2028 is so that in case something comes up, a revenue bond can be relied upon. It is not showing a project.

Mr. Schimmel noted that the long-range CIP plans do not fund any appeal of the NPDES permit, nor do they fund new facilities. Some assumptions have also been made about the State Revolving Fund (SRF).

Mr. Schimmel commented that there is no fat in the capital budget and that there is extreme rate sensitivity.

In the context of historical investment versus planned investment for the future, the \$875 million in planned investment is unprecedented. The 150% debt service coverage requirement is self-imposed under the Commission's Financial Policy but also looked favorably upon by S&P rating agencies. If the debt service coverage goes below 125%, bond debt cannot be issued. The debt service coverage is the ratio of revenue to overall debt service and has nothing to do with cash holdings. Mr. Schimmel added that another metric of institutional financial position is the ratio of debt service to operating cost with 30% being considered a very healthy ratio. Ratings agencies consider that the ratio could rise to 50% with larger scale investment for a period of years as long as the ratio is projected to return to 30% or less. The Commission tracks this metric and has a line item in the model to evaluate it as part of the long term fiscal health planning. The Commission and our third party financial consultants project that even with the \$875 Million investment over the next 20 years our ratio will not exceed 30% at any given time which demonstrates sound financial planning and policies.

On the Rates and CIP spending slides, Commission Counsel Norm Guz noted that the Commission did not have a bond resolution until 2000, so it could not issue debt. Any debt for water and sewer project before 1996 was issued through the City.

Mr. Schimmel discussed recent development concerning the amendment to the Commission's bond covenants. The Commission successfully worked with bond holders and the Massachusetts Clean Water Trust to amend the requirement for a debt service reserve for bonds issued by the Massachusetts Clean Water Trust. This achievement will have significant impacts on the financial future of the Commission. Once finalized, it will immediately release \$12 Million dollars in existing reserve requirements and will likely result in \$145 Million of savings over the next 20 years in interest savings. This will have significant positive impacts to rates over the next decades.

3. Review of Financial Planning and Strategies

Commissioner Rodriguez noted that the debt service coverage requirement is not a legal requirement, so it can be altered by Commissioners if necessary.

Commissioner Otero responded there was a reason the policies were adopted, and there would be consequences for changing the debt service ratio. She also noted that rate increases always seemed inevitable based on the amount of infrastructure investment needed, so there should be caution in undoing any financial policies.

Commission Counsel Norm Guz noted that the Commission has the ability to revise its Financial Policies as to debt service coverage, but that to do so could have consequences with rating agencies. Mr. Guz added that to reduce the debt service coverage below 140% would result in the Commission being required to have third party engineering firms to review and report on any projects funded by bonds which would have an associated cost. Mr. Guz provided the Commissioners with a copy of the Standard and Poor's rating and evaluation of the Commission's financial strategy and Financial Policies.

4. Review of Capital Projects

The Commissioners reviewed a detailed list of all capital projects in the long-range capital plan. Mr. Schimmel reminded Commissioners that the list encompassed 20 years.

Staff presented water supply projects.

Director of Water Operations Jim Laurila noted that there are not many land acquisition projects planned for future years.

Commissioner Rodriguez asked if the projections for water consumption hold true. Chief Engineer Bob Stoops replied they do, and noted a 40 MGD withdrawal limit before needing a Water Management Act withdrawal permit.

Commissioner Otero asked about succession planning and how it was ensured these projects would continue after retirements. Mr. Schimmel responded that he is looking to fill deputy director positions both externally and from within. Commissioner Otero also noted that in totality there was \$122 million in construction planned, and that there should be consideration of who in the community would benefit from that opportunity for labor.

Commissioner Leonard asked about the future use of alternative energy. Mr. Schimmel responded that solar is not yet offering a good return. It still costs too much to be a net zero utility. Digesters, hydro-electricity, and combined heat and power plants are the current focus.

Staff presented water distribution projects.

Mr. Guz asked if upgrade plans can be adjusted if something continually malfunctions or breaks. Mr. Schimmel responded that the asset assessment and management program grows each year, which identifies those types of deficiencies. Mr. Guz responded that he thought it was important for customers to see money being spent in the city. Currently \$4 million/year goes into distribution upgrades, but the plan eventually increases that amount to \$8 million/year. Commissioner Otero agreed, and said that local legislators need to be regularly educated on ongoing projects and the need for them in general.

Mr. Schimmel added that the Commission now coordinates closely on paving and provides the City with funding for trench repaving so it can contribute to full complete streets restoration, which is important to residents.

Staff presented on wastewater projects.

Director of Wastewater Operations Bill Fuqua noted that design and engineering for projects cannot be funded through the SRF, so it must be funded with revenue or capital reserves. Because the nature of the wastewater operating contract disincentivized upgrades, the treatment plant has remained the same for twenty years.

Commissioner Rodriguez asked how much was expected to be spent on the Connecticut River Crossing project in the next fiscal year. Mr. Schimmel responded \$30 million, and that portions of the Connecticut River Crossing project will be reimbursed by wholesalers.

Director of Finance Domenic Pellegrino explained that because the Connecticut River Crossing project is an SRF project, it will be paid out of revenue, and then the Commission will submit for reimbursement. Once the project is over 50% complete, financing a portion of that debt will be possible. Rates are being planned for the time when the debt is financed.

Mr. Schimmel clarified that the Connecticut River Crossing project does not impact the rate increase this year, because debt service will not show up in the books until the project is halfway complete. The rate increase this year is due to the large amount of smaller projects on the books that are being paid with cash and debt service. When the \$100 million project hits the books, there will be a 7% rate increase. Design for the project is already included in the rates since that was paid for through bond funding.

Commissioner Otero asked what assurance there is that projects will be completed so that the 9.9% rate increase is justified. Comptroller Anthony Basile responded that projects stay on the books until they are complete and are only removed per Commission approval. Mr. Schimmel added that the spending plan and appropriations plan are different, and there were funds appropriated last year that staff knew would not be entirely spent out. But an appropriation for the entire project cost needs to be made first before any spending can proceed.

Mr. Pellegrino added that rates are not affected until projects are permanently financed. Quarterly reports are produced to be transparent, and if projects do end with excess funds, the funds go into a reserve account. The reserve account will be used to fund other projects planned for the next fiscal year. There is no strategic plan to have year-end balances.

Discussion continued on how flexibility for projects that may not be completed is incorporated into the rate planning process. Mr. Guz provided the example of the sewer line rehabilitation under St. Michael's cemetery, which has been delayed due to unexpected negotiations with the Diocese. Mr. Schimmel said if there is any sign that a project will not ever be completed, it will not be added to the capital plan, but those signs are not always clear at the outset. The stabilization fund also allows for the inclusion of unexpected projects that may not be anticipated, or a sudden decline in revenue (since one customer represents 11% of revenue). The stabilization fund and OPEB fund improve the Commission's bond rating. Mr. Guz commented that adding the entire project cost on the books makes directors more accountable to finish projects. Projects cannot be initiated until the total project appropriation has been voted on and factored into the rate determination.

Mr. Schimmel added there is a need for all of the identified projects. Mr. Basile commented that the stabilization fund is necessary for the sustainability of an organization of the Commission's size. Mr. Basile strongly recommended funding the stabilization fund to \$15 million, especially because there is

always the risk that Solutia ceases operations. Commissioner Rodriguez agreed, but noted the question is how much to fund the stabilization fund.

Commissioner Rodriguez commended staff on the amount of work that went into the CIP plan and presentation, and noted that any questions were intended for clarification, not critique.

Commissioners voted unanimously to adjourn at 12:34 PM.



Jaimye Bartak, Secretary

