

**SECOND TAXING DISTRICT COMMISSIONERS**

Special Meeting Minutes  
August 27, 2014

|                 |  |                                   |
|-----------------|--|-----------------------------------|
| Present:        | Mary Burgess<br>Maria Borges-Lopez<br>Mary Geake<br>Mary Mann<br>Martha Wooten-Dumas | Chairperson<br>Vice Chairperson   |
| Absent:         | Cèsar Ramirez<br>David Westmoreland  |                                   |
| Also Present:   | John M. Hiscock<br>Lisa Roland   | General Manager<br>District Clerk |
| Public Present: | None   |                                   |

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**Call To Order:**

Commissioner Burgess called the Special Meeting of The Second Taxing District Commissioners to order at 5:38 p.m. on Wednesday, August 27, 2014. The meeting was held at South Norwalk Electric and Water, One State Street, Norwalk, Connecticut.

Commissioner Burgess: “So I will call the Special Meeting of the District Commissioners to order Wednesday, August 27<sup>th</sup> at 5:38 p.m. and we need a motion for the acceptance of the Regular Meeting Minutes, Appeals Committee Meeting Minutes and Special Meeting Minutes.

**1. Acceptance of the Minutes**

Commissioner Geake: “Do you want to do it all in one time or?”

Commissioner Burgess: “Well, it doesn’t matter. If nobody...”

Commissioner Geake: “I make a motion to accept the minutes of...”

Commissioner Borges-Lopez: “Second...I am sorry.”

Commissioner Geake: “I was just going to say of July 15<sup>th</sup>, July 22<sup>nd</sup> and August 5<sup>th</sup>.”

Commissioner Burgess: “Ok, is there a second?”

Commissioner Borges-Lopez: “Second.”

Commissioner Burgess: “Now, is there any discussion? No? Wow...all in favor?”

Commissioners Unanimously: "Aye."

Commissioner Burgess: "Opposed? Abstentions? Ok, Public Participation. Ok then Consent Agenda."

## **2. Ratify Appeals Committee Decision**

Commissioner Burgess: "We will need to ratify the Appeals Committee's decision. Can I have a motion on that?"

Commissioner Borges-Lopez: "So moved."

Commissioner Burgess: "Is there a second?"

Commissioner Mann: "Second."

Commissioner Burgess: "All in favor?"

Commissioners Unanimously: "Aye."

Commissioner Burgess: "Opposed? Abstentions? Ok, now we have to agree to approve the Search Recruiter, correct?"

## **3. Approve Executive Search Recruiter**

John Hiscock: "Right, the individual that you chose..."

Commissioner Burgess: "We need to ratify the choice."

John Hiscock: "That the Search Committee..."

Commissioner Burgess: "Of the Executive Search Committee. Is there a motion on that?"

Commissioner Borges-Lopez: "So moved."

Commissioner Burgess: "Is there a second?"

Commissioner Wooten-Dumas: "Second."

Commissioner Burgess: "All in favor?"

Commissioners Unanimously: "Aye."

Commissioner Burgess: "Opposed? Abstentions? Ok, you had your little breathing room."

[Laughter]

John Hiscock: "Yes."

Commissioner Burgess: "Water Rate Increase."

#### **4. Water Rate Increase**

John Hiscock: "In your packet I gave you a brief report on the water rates as it relates to revenues and expenses and the five-year capital budget going forward. Contrary to the directive of the Commission I did not come back each and every year and it wasn't that I was in disagreement with you on it. I think I casually put a comment in there about it, that the CPI has been so low for the last several years that going in at 1% or 1½% increase and incurring all of those expenses didn't make much sense. Now, you all recall or some of you recall that after a rather large hike, we got into a discussion with Senator Duff and he felt he had constituents complaining to him that it was too large and not enough notice. So, this Commission did approve a policy and a procedure, which I believe is attached here for you to look at. So, I just want to speak to that before I speak to any other issue. It requires advanced notice in the form of a draft report. So there is a draft report and in addition to advanced notice it requires a public hearing, it requires the Commission to wait at least seven days after the public hearing to get the input. The public hearing is obviously open to anyone who wants to speak in or out of the District because as I have indicated to you in the past, a good three-quarters of our customers are actually outside of the District. So, towards that end, I did put a schedule in there of how this would proceed, if in fact we were to go forward with some form of rate increase. The schedule simply indicates that if the Commission decided to accept this Draft Report, not a final report, a Draft Report, that we would go through the notification procedure; let everybody know that the Draft Report existed, it was available for them to look at, to review, to comment and we would hold a public hearing on a rate increase on September 9<sup>th</sup>. And the reason I suggested September 9<sup>th</sup> and this is all open to discussion here, is because our regular scheduled meeting in September is on the 16<sup>th</sup> and that would be the requisite seven days before a decision could be rendered and then once a decision is rendered and it's not part of the adoption schedule, we then have to notify the customers thirty days in advance, which means sometime before the 1<sup>st</sup> of October we would notify the customers if there was an increase adopted by the Commission and tell them the amount, the terms and conditions, whatever it is and then it would be effective on November 1<sup>st</sup> because it requires thirty days. As sort of just a general comment to you, as you can see, it will be the 1<sup>st</sup> of November before it is effective. I did not feel it would be appropriate to ignore this situation considering my imminent departure. I think that is one, not a fair thing to do to a replacement and two, it was on my plate because I chose not to come back to the Commission with an annual increase as I said based on the size. It just truly made no sense to come in at 1%, 1¼%, 1½%, 1¾% or something like that year after year because one, the notification is expensive. When we mail a notice to all of our customers, it averages, with our bulk mailing rate at about 40 cents; 40 cents times 9,000 customers, the notice alone is \$3,600. Then we have a hearing notice, we have the

meetings, the transcriptions and all of that. At the absolute best we get away is well over \$5,000 every time we make a change. So, that is an issue but primarily the timing on this relates to one, my delaying it and two, it is exactly three years from the prior increase and from a procedural aspect that is why it's here on your agenda. The actual report gives you information but again it is a draft. The Commission could, after going through the process, alter the rate increase to anything reasonably close to what is included in the report. You couldn't possibly low ball and you know have a very low report and then turn around and do a big increase; that is just clearly inappropriate. I know none of you would agree to that. That just makes no sense. You could lower or you could make a determination not to do that. You could make a determination not to change rates. I think the things that really come out of the report relate to expenses related to tank painting, that truly is a problem. At \$400,000 a tank, it is a lot of money."

Commissioner Mann: "Yes it is."

John Hiscock: "It is clearly a lot of money. Tank painting today is quite expensive. One, due to all of the safety requirements, two, due to all of the environmental requirements with respect to sand blasting in open spaces, you are not allowed to do that anymore. And the other is even though we use what was at the time called lead free paint. It isn't quite lead free under today's standard, so there is a little bit of a problem with that material. Consequently, tanks are quite expensive. So, those are some issues. The OPEB obviously became an issue also. Once we made a determination that we were going to do the catch up and spend the money, you can see that OPEB is a significant amount of money. So between the three of those; that is sort of the primary issue with respect to not having sufficient cash. Is it possible for us to space the tank painting out? Yes, it could be done. Both of them however are starting to show rust through the paint and I don't know how many of you saw Price Street and how bad it really looked. The one up off of Connecticut Avenue. You know where they built the new CVS. Directly across the street, up behind Swanky Frank's we had a tank. About three quarters of that tank's surface was rusted and it happened very fast towards the end of the painting cycle. So, delaying it; it is not going to look nice. The next two tanks that need to be painted also are in residential neighborhoods and very visible. They are all tall. Price Street was short, squat and you really didn't see it until you got up to it. We are talking Michael Street and Summit Avenue are both around 100 feet tall, both are in residential neighborhoods with tight lots. It won't look good to leave them. In addition, on the Summit Avenue tank, we had a leak last winter. A minor leak, a weld seam leak but that tank is the next one to be done and needs to be done based on that. We drained the tank and then had to do a temporary patch and a weld on that seam. The tank shouldn't go longer. We don't want to be in a position of creating a bigger problem with the weld seams. So, other than that those are the only really major, large cash chunks other than our normal debt service and our normal maintenance and our normal replacements. At this point, I think I am going to stop and answer questions or get your comments or go from there with respect to whether or not you want to accept this in draft form for further changes by the Commission if necessary and go through the process or not. Yes?"

Commissioner Wooten-Dumas: "But, basically you are saying that unless we do an increase, we are going to end up going negative?"

John Hiscock: "We will end up going negative or we are going to have to defer the tank painting projects completely. We will go negative. If you look, and it was my fault for not explaining this to you, and I am going to go to Exhibit B and if you look at the first page of Exhibit B; the second page shows you the negative that you just spoke of on the back side. On the first page in very fine print up on the top, there is a line called revenue and one called expense and in 2015/2016 and in 2016/2017, there are small numbers on top. Ok, just so you understand what those number are. Those are the multipliers that we used for revenue against the base 2014/2015. So, we in this spreadsheet, already calculated a 5% increase in 2015/2016 and then a 3%, a 3% and a 3% using a CPI cost increase to us of 2%. This document by the way, came out of our bond statement. And this was something that we told the rating agencies about because there were questions about the Water Fund and it being so low in relationship to the Electric Fund, which is in such good shape. But yes, if we don't do something, we are going to end up with a negative balance or we need to defer those two projects for a very significant timeframe, which is probably not advisable. With respect to the rates, there is a table in here that you...I am sure you have seen, showing how we compare to other utilities. Exhibit A, page 9, no that is history, I am sorry. It is probably at the very end...yes, we have Exhibit F. Ok, wait Exhibit C, besides the two Exhibits that fold out, we will talk about them in a minute, but here is Exhibit C. It shows where we currently are and where would go if we did the 6% increase. And as you can see, these are companies of significant size and they are declining by the way. Mergers, acquisitions and the DPUC having Aquarion and Connecticut Water acquire a lot of small utilities, some of them public, a lot of them private. You can see that we are the seventh one down on the list for the proposed rate; the sixth one down for the existing rate, which essentially means either way we remain as the 6<sup>th</sup> lowest, but that is in the District. When you read across the column and you look at the proposed rate at \$136.59, which is with the 50% higher which we all know that Mr. Duff had some comments about that also, you will see that when you take that \$136.59 and put it into this column, a good number of our customers will end up with rates that are relatively high. Relatively high being in that upper group starting with Groton or Norwich and running from there on up. At \$136.59 we would be fourth from the top. And you will see Connecticut Water and Aquarion have different divisions because they have done so many acquisitions and to merge their rates into a single effective rate, they do end up being in a position where they have multiple jurisdictions. The interesting comment about Aquarion, the Western Division is not what you think. Its north of here and its northwest Connecticut. The Divisions that are surrounding us are the Eastern and the Southern. So, one, I think that SNEW needs to maintain a water increase strategy over the foreseeable future of being at the CPI and not above it or close to the CPI and not significantly above it. The age of these increases for those other two companies are a year, two or three old so they will be going up. What will happen is a lot of the companies just below the outer District rate will leap frog over us as they go in for increases. Here it is graphically. It is kind of hard to read these graphs. They get a little bit busy. You can see that if you look at the Exhibit F comparison to Connecticut rates you will see that SNEW with a 6% increase stays relatively where it is right now in relative position. And SNEW outside with a 6% increase stays in basically the same relative position. The 6% is a very small increase compared to these numbers and doesn't drive us into different places with respect to other companies. We are still relatively in the

same position. Stuck in there for you is just a brief CPI chart just to show you how the CPI has changed; that is Exhibit E. And I will tell you that, and that is why I wanted to place that in here, the actual increase between October, 2011 and October, 2014 is actually 5%; 4.99%, 4.911%, 4.950% rounded to an even 5%, so it is 1% above the three year CPI. If you go forward and accept this report as the Draft Report, you will have the opportunity to change as long as it is reasonably close to this or not go forward and that decision, based on my schedule, would be on the 26<sup>th</sup> of September...no the 16<sup>th</sup>, sorry, the 16<sup>th</sup> of September. Any other questions or comments?"

Commissioner Burgess: "Any other questions? So, what we need here is a motion to accept the Report?"

John Hiscock: "To accept the Report and schedule a hearing, that would be appropriate, if we were going to do that."

Commissioner Borges-Lopez: "So I make a motion to accept the Report and schedule a hearing."

Commissioner Burgess: "Is there a second?"

Commissioner Wooten-Dumas: "Second."

Commissioner Burgess: "Any discussion? All in favor?"

Commissioners Unanimously: "Aye."

Commissioner Burgess: "Opposed? Abstentions?"

Commissioner Geake: "I make a motion to adjourn."

Commissioner Wooten-Dumas: "Second."

Commissioner Burgess: "All in favor?"

Commissioners Unanimously: "Aye."

### **Adjournment**

*The meeting adjourned at 6:05 p.m.*

Attest:

Lisa Roland  
District Clerk