SECOND TAXING DISTRICT COMMISSIONERS

Regular Meeting Minutes
February 21, 2017

Present:	Maria Borges-Lopez	Vice Chairperson
	Harold Bonnet	
	Mary Geake	
	Mary Mann	
	Sandra Stokes (arrived at 7:08 p.m.)	
	Martha Wooten-Dumas	
Absent:	David Westmoreland	Chairperson
Also Present:	Paul Yatcko	General Manager
	Kevin Barber	Director of Finance & Services
	Lisa Roland	District Clerk
Public Present:	None	

The meeting was recorded in its entirety.

Call To Order:

Commissioner Borges-Lopez called the Regular Meeting of The Second Taxing District to order at 7:00 p.m. on Tuesday, February 21, 2017. The meeting was held at South Norwalk Electric and Water, One State Street, Norwalk, Connecticut.

The District Clerk read the Agenda.

1. Acceptance of the Minutes:

1.1 Regular Meeting Minutes of January 17, 2017

Commissioner Wooten-Dumas moved to accept. Commissioner Mann seconded.
Minutes were approved unanimously. **(2017-02-21-1.1)**

Public Participation

No Public was present.

REGULAR AGENDA

2. Review Final Audit Report – Second Taxing District: July 1, 2015 – June 30, 2016

Kevin Barber presented a summary of the audited Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016. The final numbers were unchanged, with one exception, from those previously presented at the Electors' Meeting of November 15, 2016. The only difference was the inclusion of the District's Municipal Employees' Retirement System (MERS) pension liability numbers. This inclusion was required to comply with GASB 68, but had been delayed until the completion of the State of Connecticut's audit process. The final report was audited by the firm Michaud, Accavallo, Woodbridge & Cusano LLC, and the District received a clean bill of financial health. The auditor was not present at this (tonight's) meeting, but may be requested to attend a future meeting should the Commission wish to ask questions directly.

The Comprehensive Annual Financial Report totaled 88 pages. The structure did not change from previous years, and contained an Introductory Section, a Financial Section with accompanying notes, a Required Supplementary Information Section, a section containing Supplementary Combining and Individual Fund Schedules, and a Statistical Section.

Kevin Barber presented highlights. (Figures cited are rounded, although they appear to the dollar on the handouts.)

Page 27 of the report outlines the District's Statement of Financial Position. The top portion outlines assets, while the bottom portion outlines liabilities. There are three columns – 'Governmental Activities' (i.e. District General Fund), 'Business-Type Activities' (i.e. combined Water and Electric Proprietary Funds), and 'Total' which combines all three funds.

Total assets (includes deferred outflows of resources for combined governmental and business-type activities) were $80,311,000. This total was comprised of $23,879,000 in total current assets, and $55,946,000 in total non-current assets (as well as $485,000 in deferred outflows of resources).

Total liabilities for the combined governmental and business activities were $31,900,000. This total was comprised of $5.5 million in total current liabilities and $26.4 million in total non-current liabilities. Two large figure items in non-current liabilities were attributed to long term debt. These were $8.5 million for the substation bonds and slightly over $15 million for the water filtration plant loan.

The total net position for combined governmental and business activities was $48,404,000, with $45,734,000 of this figure attributed to the business activities. The breakdown of assets and liabilities from the business activities appears on page 35 of the report and is discussed directly below.

Page 35 of the report outlines the Statement of Net Position for the Proprietary Funds, Water and Electric, both combined and individually. Total assets (and including deferred outflows of resources) of $77,629,000 is comprised of $40,745,000 from electric and $36,884,000 from water. Total liabilities of $31,895,000 is comprised of $13,657,000 from electric and $18,238,000 from water. The total net position of $45,734,000 is comprised of $27,088,000 from electric operations and $18,645,000 from water operations.

A few additional reports and notes were added to the 2016 Annual Financial Report due to GASB 68 requirements, including Notes 8 and 14. Note 8, on page 56, previously just one page in length, has been expanded with greater detail regarding the Connecticut MERS pension plan benefits and the District's liability. Note 14, on page 65, restates the net position for the fiscal year ending June 30, 2015 to incorporate the District's MERS liability figures.

Each proprietary fund is presented in more detail on pages 69 and 71, for water and electric, respectively.

Schedule 1, on page 69, presents the Schedule of Operating Budget for the Water Proprietary Fund. The schedule compares budgeted to actual dollar figures for the fiscal year ended June 30, 2016.

Actual total income (includes both total operating and other incomes) amounted to $9,119,000 versus the budgeted $8.5 million, resulting in a positive variance of approximately $600,000. Of the latter, $253,000 was from operating income (sale of water). The remaining variance was from miscellaneous fees and income.

Also shown on page 69, actual total operating expenses (excludes other expenses) amounted to $6,234,000 versus the budgeted $6,542,000, resulting in a positive variance (under budget) by $308,000.

Schedule 3, on page 71, presents the Schedule of Operating Budget for the Electric Proprietary Fund. The schedule compares budgeted to actual dollar figures for the fiscal year ended June 30, 2016.

Actual total income (includes both total operating and other incomes) was $15,588,000 versus the budgeted $16,054,000, resulting in a negative variance of $466,000. In other words, electric sales underperformed for the year.

Actual total expenses were $13,831,000 versus the budgeted $15,605,000, resulting in a positive variance of $1,774,000. Expenses were under budget because the purchased power expense was less (directly related to decrease in sales of electricity). Thus, although projected revenues were less, the decreased cost of purchase power more than made up for the loss.

Commissioner Stokes had a question regarding the budgeted water expense figure for pumping maintenance ($58,164) on Schedule 1, page 69. Why was the actual expense ($28,973) nearly half that budgeted? Similarly, why was the actual expense ($86,481) for maintenance under administrative and general (A&G) expenses less than budgeted ($121,200) by a large amount ($34,719)? Paul Yatcko explained that budgeted figures for items such as pumping maintenance are generally based on historical data plus or minus some assumed changes. As such, maintenance expense categories tend to be 'lumpy' i.e. difficult to predict, as well as very sensitive to one or two small changes in the work actually needed, performed and/or deferred. For the A&G maintenance expense, Paul Yatcko directed Kevin Barber to provide Commissioner Stokes with more detailed information at a later date. Paul Yatcko explained that A&G maintenance typically contains a number of small contracts, such as for IT equipment as an example, the timing of which could affect the current year's budget by being deferred into the following year.

The review was for information only. No action was required nor taken.

3. 2017 – 2018 District Budget – Analysis & Discussion

Paul Yatcko began the presentation by first publically thanking and praising his staff - Kevin Barber, Brad Doolittle and Archer Anasco - for a job well done in preparing the budget on a very tight schedule.

Paul Yatcko listed the basic assumptions made in preparing the draft budget: a general 2.5% increase in employee salary, effective January 1, 2018; health insurance premium increase of 15%, effective January 1, 2018; the continued funding of 47 positions (no change); a water rate increase of 3%, effective the first day of the fiscal year (July 1st, 2017); 100% contribution of capital-in-aid-of construction from the one major construction project commencing shortly in the District; and tweaking/adjusting the O&M and capital expenditures to avoid drawing excessively on the reserve fund balances.

The 2017 – 2018 Draft Budget handout totaled 50 pages. Paul Yatcko presented the following: the District's General Fund Budget, the Water Operating Budget, Water Capital Projects, the Electric Operating Budget, and Electric Capital Projects. He cites figures rounded up to the nearest thousand (although they are presented to the dollar on the handouts).

Page 3 contains the District's General Fund budget. There is essentially very little change from the prior year's budget. Revenue is limited to a small amount of interest income. Total operating expenses are budgeted at $155,000. There are no changes in basic salary items, and only small increases in projected expenses for meetings and printing, and insurance (premiums). Legal fees remain unchanged from last year because Ryan Park expenses were not budgeted for in the 2016 – 2017 fiscal year. Total community service projects at $29,000 are up slightly from the previous year. Total street lighting expenses are budgeted at $167,000, reflecting a lower labor allocation from last year due to recent history.

The District's budget continues on page 4. Net operating income is projected at a loss of $371,000. Transfers of $95,000 each (fixed amount transferred annually) are planned for from the Water and Electric Proprietary Funds to help cover the general expenses of the District. An additional $167,000 transfer is planned for from the Electric Fund to directly cover the street lighting expenses in full (variable amount transferred annually to exactly cover these expenses). The net change in the General Reserve Fund is being shown as a negative $14,000, but nevertheless typically ends up being positive. At this time, the ending balance in the General Reserve Fund is expected to be a very healthy $1.151 million.

The Water Operating Budget is presented on pages 5 and 6. Total operating revenue is budgeted at $8.69 million, representing a flat sales volume but including a 3% rate increase for metered sales. The rate increase is not applied to public fire protection sales because the municipalities were not given fair warning of an increase.

Total other revenue (not from water sales) is budgeted at $234,000, with changes in the line items expected based on previous history. Budgeted laboratory services increased slightly, while net merchandising and jobbing (work done at the expense of others) is expected to decrease (by over a third from the previous year). Miscellaneous customer charges are also expected to decrease (by $20,000).

Thus Total revenue for the water business is budgeted at $8.9 million, up a very modest $118,000.

Commissioner Stokes asked the meaning of the line item "merchandising and jobbing." Paul Yatcko gave an example. SNEW buys and installs a piece of equipment and is then reimbursed for the work. The expense is booked under merchandising and jobbing, and the revenue is booked in other revenue.

Continuing on the same page with water expenses, source of supply expenses are budgeted at $254,000, an increase of approximately $68,000. The increase is due to the dam inspection and repair program. The budgeted expense for pumping has decreased due to less labor being anticipated. Water treatment at approximately $1.42 million is the biggest expense, but is also decreasing (by $75,000) from the previous year. The previous budget for this item included a onetime expense for fluoride system repairs. Transmission and distribution (i.e. pipes and valves in the street) is budgeted at $989,000, a decrease of approximately $94,000. Meter calibration and water audit expenses, in response to the drought, are built into the budgeted number and these expenses will be off-set by lower overhead allocations. The customer accounts expense is budgeted at $618,000, an increase of approximately $46,000, primarily due to an upgrade of the customer information system (CIS) planned for this fiscal year. Finally, administrative and general expenses are budgeted at approximately $2.9 million, a decrease of approximately $102,000, and consists of a bunch of "nits and gnats, puts and takes."

Commissioner Stokes asked for examples of administrative and general expenses. Paul Yatcko defined them as expenses not specific to any of the other departments, functions, or line items elsewhere in the budget – examples include cost of finance department, cost of administrative department, cost of building rents, health insurance, IT costs, taxes related to employees…

The total operating expenses come in at nearly $6.6 million, a decrease of approximately $133,000 from last year's budget.

The budget continues on page 6. Total property taxes are budgeted at $467,000, assuming the assessment up at Wilton remains unchanged, even though the

District won the Wilton tax appeal and will be getting a refund.

Total expenses are approximately $7 million, a decrease of approximately $133,000 or 1.8%. Capital expenditures are approximately $880,000, and details are presented on the next page of the report. Debt service which includes interest and principal payments on the outstanding loan for the filtration plant is approximately $1.49 million. Thus the net change in the Water Reserve Fund due to operations and capital is a negative $513,000. The beginning balance of the Water Reserve Fund is $1.44 million, reflecting the anticipated $1.1 million lump-sum Wilton tax refund expected to be received within the next 30 to 45 days. This payment will greatly improve the fund balance in the water business. Once everything is netted out, the closing balance on the Water Reserve Fund is expected to be $938,000.

Capital expenditures for water, shown on pages 7 and 8, total $880,228. Some of the bigger items include purchase and installation of AMI water meters and modules at $75,000; CIS Infinity mobile modules (allows meter readers to obtain information from the customer information system on a mobile basis) at about $29,000; installation of a solar photovoltaic system on the roof of the water treatment plant, at approximately $300,000 to $350,000, but which will be paid from the Electric Conservation Fund which currently has over $1 million in deposit; upgrading of the accounting system at $40,000 for the water side; the installation of ultrasonic clamp on meters and associated leak survey at $25,000; the installation of transmission main valves at $59,000; the main replacement program (proactive replacement of aging infrastructure) at $100,000; a contingency fund for the purchase of any emergency capital items, budgeted at $50,000, whose expenditure only Paul Yatcko can authorize; and a number of smaller projects totaling $150,000.

Commissioner Stokes asked the extent of the accounting system upgrade and what was being used now. Kevin Barber answered that the current system is 14 -15 years old, with limitations that require manual intervention and paper pushing. The department will be looking for a system that will allow for more efficient electronic processing and interdepartmental interaction. The total budget is $80,000 - $40,000 each for water and electric.

Commissioner Geake asked if the Upgrading Phone System / Call Tracking line item at $10,000 would address issues such as dead calls and other problems. Paul Yatcko replied that the intent of the upgrade is not only to correct issues, but also to provide management with call center statistics such as number of calls, types and duration of calls, average time in queue etc.... A total of $20,000 is being allocated - $10,000 each for water and electric. It is unknown at this time whether the upgrade would entail hardware as well as software.

Commissioner Stokes asked the meaning of the letters in the first column for each line item. Paul Yatcko replied that those are the initials of the individual accountable for the project.

Page 8 lists extraordinary maintenance projects totaling $224,000. The costs of these were already included in the O&M budget and are not incremental. These projects include CIS upgrade, website redesign, dam inspections and repairs, system water audit, leak detection survey, intake repairs, and clarifier repairs.

The Electric Operating Budget is presented on pages 9 and 10. Revenue from sales is projected at $15.8 million, down $160,000. Modest increases are predicted in the small customer classes, partially offset by no growth in the mid and large customer classes, and based analysis over the past 3 years. It has become increasingly difficult to accurately predict sales and revenue, not just for SNEW, but for other electric utilities across the State of Connecticut and possibly the Northeast. While there weather variability is a factor driving electric sales, Paul Yatcko believes that economic and subsidized conservation measures are also playing a role in decreasing sales. Additional refining is being sought on this sales number forecast.

The budgeted $24,000 for miscellaneous service charges also requires additional analysis, as it seems rather low. Miscellaneous non-operating income, budgeted at $1.25 million, refers to the assumption that SNEW will be reimbursed for all of its capital expenditures related to the large construction project that is about to commence in the District. However, the current fiscal year's budgeted $766,000 has yet to be collected because construction has been delayed, and thus capital expenditures have not be made to date on behalf of this project. If work is delayed past the end of the 2016 - 2017 fiscal year, the number for the 2017 - 2018 fiscal year will need to be adjusted.

The total revenue is expected at $17.4 million, an increase of approximately $240,000.

Under operating expense, purchased electricity – resale remains unchanged at $9.7 million. This number is still being refined. Transmission and distribution is budgeted at $1.18 million, a reduction of almost $250,000, reflecting lower tree trimming expenses and lower labor allocations. Customer accounts expenses (as on the water side) are up due to the CIS upgrade. A&G costs are $2.74 million, a decrease of $84,000. Total operating expenses remain virtually unchanged at nearly $15 million.

On page 10, net income less expenses is $2.12 million reflecting the increased revenue due to the contribution-in-aid-of-construction for the major construction project. Capital expenditures are budgeted $1.8 million. The change in the Electric Reserve Fund is a negative $432,000, with a closing balance of $11.3 million.

Capital expenditures for electric are shown on pages 11 and 12, and total over $1.8 million. The biggest expense is for equipment purchases and installation, both onsite and offsite, for the new commercial development over at West Avenue. The best guess budget for the 2017 – 2018 fiscal year is $1.25 million, combined with the current year's $766,000, for a total of slightly over $2 million. The number is still in flux as details, specifically regarding electric demand and thus the required transformer capacity, are fine tuned.

Commissioner Geake asked about Washington Village. Paul Yatcko responded that Washington Village has not been budgeted for yet because expenses aren't expected to occur in the 2017 – 2018 fiscal year. However, the Day and Raymond upgrade has been budgeted for.

Other items of electric capital projects include the other halves of the CIS mobile solution and the new accounting system. The purchase of electric meters are budgeted at $75,000, although that may be too high. Annual blanket items being budgeted for are emergency pole replacement at $25,000, and transformer replacements at $100,000. Also budgeted for are substation improvements such as the ventilation system for the switchgear house at $3000, underground switch replacements, motor controllers at $20,000, a contingency lump sum of $150,000 solely under Paul Yatcko's control for emergencies, and finally a bunch of nits and gnats totaling $83,000.

The extraordinary maintenance projects already built into the O&M budget are shown on page 12. These total $80,000 and include CIS upgrade, tree trimming, and website redesign.

The Commissioners will have another opportunity to review and comment on the 2017 – 2018 Draft Budget on March 14th, 2017 before being presented to the Electors' on March 21st. Paul Yatcko encouraged the Commissioners to call Kevin Barber or himself with any questions.

Commissioner Stokes asked about the state street security line item. Paul Yatcko explained that the entry door needs to be replaced.

The draft budget was presented for information and discussion. No action was required nor taken.

4. Management Update

Paul Yatcko made the presentation. He provided the status on four items.

Safety Performance

Historically, SNEW's safety performance has been embarrassingly poor. However, it has improved tremendously over the past year. SNEW's OSHA Reportable Rate has dropped to 2.3, which is lower than the industry average of 2.6. A number of initiatives, besides good fortune, may have contributed to improved safety. These include having a full time safety resource on site, increased awareness through daily job briefings, increased training, improving the visibility of safety performance, and reconstituting safety committee/team meetings. But because SNEW is a small organization, just one more reportable event per year will bring the rate up over the industry average. Thus continued awareness and vigilance are required.

Water Supply

With continued precipitation and snow melt, the current capacity is at 70.3% full - a 6 % increase over the last week. Demand continues at about 5.1 million gallons per day – a slight decrease from 5.2 million. The current levels represent approximately 174 days of water supply assuming no additional rain and no change in demand. Although conditions are improving, they are not at the point of rescinding conservation orders.

Director of Electric Operations

Paul Yatcko is expecting the consultant to provide a candidate listing by the end of the current week (February 24th). From that starting point, he will identify candidates to begin the interviewing process.

Organization Review

Paul Yatcko has received a work plan and document request list from CMEEC CEO, Drew Rankin, whom will be conducting the organization review. Paul Yatcko expects the review will be completed in a few weeks' time.

Adjournment

Commissioner Geake moved to adjourn. Commissioner Wooten-Dumas seconded.

The meeting adjourned at 8:05 p.m.

Attest:

Lisa G. Roland
District Clerk