SPECIAL TOWN COUNCIL MEETING

SEPTEMBER 17, 1991

7:00 P.M.

AGENDA

1. Roll Call & Pledge of Allegiance

2. Final Report Out From Camp Dresser & McKee on the Evaluation of the Town of Wallingford's Electric Division

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7:00 P.M.

A Special Meeting of the Wallingford Town Council was held on Tuesday, September 17, 1991 in the Robert Earley Auditorium of the Wallingford Town Hall and called to Order at 7:15 P.M. by Chairman Albert E. Killen. Answering Present to the Roll Called by Town Clerk Kathryn J. Wall were Councilors Bradley, Duryea, Gouveia, Holmes, Killen and Zandri. Councilor Papale was celebrating a holiday, Councilor Parisi was ill and Councilor Solinsky was absent due to a death in the family. Mayor William W. Dickinson, Jr. arrived at 8:17 P.M., Town Attorney Janis M. Small and Comptroller Thomas A. Myers were also present. Attorney Gerald Farrell arrived at 7:38 P.M.

The Pledge of Allegiance was given to the flag.

A moment of silence was observed by the Council for Irene Solinsky, mother of Councilor Thomas D. Solinsky.

ITEM #2 Final Report Out From Camp Dresser & McKee on the Evaluation of the Town of Wallingford's Electric Division

Mr. Bradley addressed the Chairman and Council Members with the following opening comments:

"The members of the Finance Committee, Camp Dresser & McKee, the consultants, and myself are pleased to present to you this evening the Final Report on the Evaluation of the Town of Wallingford's Electric Division Study. The study as requested by Councilman Zandri at the June 12, 1990 Town Council Meeting was unanimously approved by all those present. Subsequently on June 18, 1990 the first meeting of the Finance Committee was held. The committee set its objectives to find the scope and fine-tune the primary objectives that were set forth by the Town Council. Those objectives were;

1. To perform a study of the Town's electric rates and determine how future rates should be set

2. To perform a study of the service provided and the efficiency of the Division's overall operations

3. To determine what amount of money the Electric Division needs in reserve to run its operation

4. To determine what level of annual revenues the Town should receive from the Division and what type of escalator should be applied to this figure

5. To study the Division's Retained Earnings and Depreciation Accounts

The outcome of many Finance Committee Meetings and a thorough review of all candidates was a signed contract on February 15, 1991 authorizing the consultant, Camp Dresser & McKee to proceed with the study. Before you this evening is the final report that represents several months of comprehensive study of the Electric Division and its operational and economic relations with the Town. The report presents an unbiased evaluation of the Division, a criteria this committee stressed, and recommendations that reflect the business and industry standard for balancing the needs and strengthening the financial relationship between the Town and the Division. As Chairman of this committee I take pride in noting that all business conducted by this committee was above-board. All members of the Administration, from the Mayor, Comptroller, Town Attorney, Purchasing Agent, Town of Wallingford Director of Public Utilities, Town Electric Division Management, Public Utility Commissioners and the Town Council were kept fully informed on all items, events and issues this committee and its consultant were involved in. I would like to thank committee members Councilmen Gouveia and Parisi for their time, dedication and professionalism exhibited throughout the study. I would also like to thank all Administrative staff for their assistance and cooperation. Your professionalism and dedication exhibited throughout this study is something that you, the Town Council and the people of Wallingford can be proud of. Also, thanks goes to Dave Russell, Project Manager and Dan Lanning, Senior Management Consultant and all other staff members of Camp Dresser and McKee that were involved in this project. Their professionalism exhibited by you two gentlemen throughout the study reflects back most positively on your company. I would like to address two points, if I can. The first one is, I would like to reassure the residents of Wallingford that Hurricane Bob and this study have absolutely nothing in common. The second point I want to address is to the news media, in particular, The Record Journal. The study we have before us this evening is a very complex study. It is a study that, even I as I keep picking it up and reading it time in and time out, keep learning more and more about the Electric Division and the Town of Wallingford and the relationships between the two. And what happens, and I guess what I would have to say is that, when things are reported on from this study, they should be reported on accurately. There is no reason for things to get misquoted and I point to the Record Journal article "The Week Ahead" which appeared in Monday morning's paper. In there in one of the paragraphs it stated, "In a preliminary report the firm made several recommendations including one that the Electric Division pay the Town an additional $250,000 for use of municipal service and data processing". Well the Town directly does not own the data processing, it is the Electric Division's. And if whoever wrote that article would have read the report, specifically on page 83, it does mention that payment to the Town services should be increased by approximately $200,000. But in the starred (*) paragraph below there it notes, contrary to what was reported, payments to the Division for data processing services it provides the Town, should be increased by approximately $50,000. All I would do is caution the press on, when they do read this, quote it accurately because what we have seen is editorial staff getting a hold of things that are written like this and, before you know it, there is an editorial that appears in the Record Journal and it is full of mistruths and really does not reflect the true meaning of the study. With that said, Mr. Chairman, I would like to turn the presentation over to Camp Dresser & McKee for their final report".

At this point Dave Russell and Dan Lanning of Camp Dresser & McKee gave a synopsis of the report with the aid of an overhead projection and transparencies (copies of which are attached to these minutes).

Mr. Russell thanked the Finance Committee and the Council for this opportunity. He pointed out that the cooperation received throughout the study was excellent, that includes everyone from the Town Council and the Finance Committee through the Town's Administration, the Public Utility Commission and all of the staff of the Town which they worked with. He mentioned that he has worked for many communities in his career and stated that he has never witnessed a more dedicated, capable staff as is present here in the Town of Wallingford.

In summary, he emphasized the statement that this is a difficult task and one which ultimately must be decided by the combined efforts of all the interested parties, Administration, the Town's Legislative Body and the Division's management. Camp Dresser & McKee feels that they have provided the alternatives and standards on which these changes can be based and it is now up to the Town to take whatever action it feels is necessary. He thanked everyone again for the opportunity to make his presentation.

The questioning was opened first to the Town Council.

Mr. Gouveia asked Mr. Russell if the rate increases that are anticipated by CDM in 1993 and 1995, will have to happen regardless of whether or not the Town decides to take CDM's recommendations?

Mr. Russell responded that most of the increase is due to the fact that we are anticipating this large wholesale increase in early 1993, however, implicit or included in those increases is the assumption that the Town follows CDM's recommendation in relation to the total reserve funds available within the retained earnings. If nothing happens to those retained earnings, if they stayed there, then we would estimate that the rate increases would be significantly higher. Essentially there is $2 million per year, $4 million over the four years that have been earmarked for reducing the wholesale rate impact and then $4 million, $1 million per year, that would be used to fund capital projects. The other $4 million would not reduce rates because it would go directly to the general fund.

Mr. Gouveia: If you say that your recommendations are not implemented we are looking at a much larger increase than the estimated 20% that we are expecting from Northeast Utilities, correct?

Mr. Russell: That is correct. Specifically we are looking at an 8% increase in 1993 and a 13% increase in 1995 and those two figures would have to increase significantly if CDM's recommendations were not followed on the disposition of the retained earnings balances.

Mr. Holmes: You have advocated two-tiered rate structure, one for Wallingford and one for the customers in North Branford. To my knowledge I am not sure that that is something that we can implement. I thought the Town Attorney had issued a legal opinion stating that we had to charge one rate for North Branford and one for Wallingford, in essence, it had to be the same rate. Was that made known to you?

Mr. Russell: No it was not.

Mr. Dave Gessert, P.U.C. Commissioner read the Town Attorney's opinion into the record (copy attached).

Mr. Gouveia: The key word in that letter is "merely because the customers are on the outside of the municipality". It is in this case a lot more than merely being outside of the municipality. In this case it is an Electric Division that is owned and operated by the Town of Wallingford and the Town has to pay $35,000 in taxes to North Branford to provide them with the same kind of services and rates that we provide to Wallingford taxpayers. In talking to the Town Attorney, she also stated to me that, to her knowledge, there were no State Statutes that would prohibit the Town from charging a different rate to Northford customers. I have asked for this legal opinion quite a while back because I felt all along that, in view of the fact that we were paying the $35,000 to North Branford just for the privilege of providing them with electricity that is about 27% cheaper than U.I. would charge to provide electricity to them, seemed ridiculous to me to pay that kind of money to them for that privilege. We should be able to recoup $170,000 and still give the Northford residents a rate that is much cheaper than U.I.'s or N.E.U.'s rates.

Mr. Holmes asked the Town Attorney to expand on the issue.

Atty. Small: Under certain conditions...there is no case law in Connecticut, although I did talk to staff people on the State level regarding this and they were the first ones who said that I should look into the discrimination issue because private utilities would not be able to charge different rates without the basis for it. Basically, the case law which is out of State case law dealt with.....he did it from the beginning and there was a rational reason for doing it in the beginning, it would be fine. If you had charged them the same rate and then made an arbitrary decision to change the rate, that would be considered discriminatory and not legal. You could make a case for changing it in midstream for rational basis....although they view the fact that initially was a higher cost, if you didn't do it from the beginning well then why is that a rational basis somewhere down the line? I think I ended my letter by saying, I could do a lot more extensive research on it. I believe that I had indications that there was a case in Massachusetts which was settled basically with the Town conceding that they should not be charging the other townspeople anything more. I found nothing in law in Connecticut that prohibited it but in the back of my mind there was something that told me there was something wrong with it. That is when I looked for the out of state cases which suggested that it would be considered arbitrary and discriminatory to do so. Someone had said that originally there was a different rate charged. I don't know if my recollection is correct or not. But not to have set it from the very beginning that they would pay a different rate creates a problem in changing it at this point in time.

Mr. Holmes: Would it be just to raise their rates to recoup the $35,000 in property tax that we pay to North Branford?

Atty. Small: You have been paying the tax, that is not a change of condition. In the normal case of property values the tax has gone up, due to revaluation that has not yet been implemented.

Mr. Gouveia: Aren't we in litigation on that?

Atty. Small: I believe that the litigation is being withdrawn because they said that they were not going to implement that. If you actually put together a proposal to do something, I would do more research on it. There has to be a reason for changing the practice that has been to charge them the same rate up to this point in time.

Mr. Gouveia: The reason that I did not request any further work on this is simply because when I received your opinion the consultants were in the midst of the study and I felt that if that was not going to be a recommendation, why bother you with further work?

Atty. Small: If that is something that you wish to do we can take another look at it.

Dave Russell: I have seen instances where this has been done by other communities charging a differential rate for customers outside of that community. I think that the critical point that is being made is that it needs to be cost-based and I think, in fact, that you could derive differential rates based on different costs for serving the outside vs. the inside customers.

Mr. Holmes asked Mr. Russell to expand on CDM's recommendation that the utility should bond more money and try to free up their available cash. He was of the impression that if the cash is on hand to forward with a project you will incur less expense over the long term.

Mr. Russell explained that CDM is not suggesting that the Division bond new facilities with 100% of debt but rather some larger percentage than what has been used in the past be applied. The reasoning behind that is premised on the fact that facility designed to serve customers 10, 15, 20 years down the road may be serving a totally different customer base than it is serving today. By bonding the facility you are causing the cost to be charged to those customers receiving the service at the time that it is being provided. On one extreme, if you paid for a facility with current assets, reserved funds, you are essentially charging the current customer base only for the service to be provided by that facility for many years into the future. It is true in one sense, the point that you make that you are paying more in interest costs when you bond, however, I would point out that you are paying back those costs in inflated dollars and it the impact is not as severe as it may otherwise appear to be.

Mr. Holmes: If we went forward with the generation expansion project and we paid more money up front to lower the financing costs, in essence, you are going to have a cheaper project over the life of that payback period, is that correct?

Mr. Russell: Yes I agree that the cost of the facility on an annualized basis would be less, but the point that I was trying to make is that it that the burden of that cost is going to be provided solely by the current ratepayers if current funds are used, if retained earnings or cash balances are used. If you fund it over time you are spreading the cost to the customers receiving the service over time.

Mr. Holmes: If you provide them with a cheaper project they are also getting a benefit now and it is not going to be spread out over ....

Mr. Russell: That is an offsetting factor and the only point I would make there is that the offset isn't a one to one difference as you might be implying. That is simply because twenty years from now when you are making a debt service payment those dollars are greatly inflated so that the cost to the people at that time are significantly less.

Mr. Holmes: In a portion of your report you detail some of the services that the Town and Division offer each other; I fail to see some of the services listed that the Division provides and does not charge back to the Town, is there any formulation for those kinds of costs to be calculated?

Mr. Russell: I think that we included all of the larger or more significant services provided by the Division, primarily the data processing service. Mr. Lanning is the primary consultant looking at that issue.

Mr. Lanning: The rent was left as it was; in our evaluation of total services provided both to the Town and to the Electric Division by the Town, there was a net increase of $150,000 required because of the different way that we allocate the services principally from the Town to the Division. There was an increase in the Comptroller's allocation, Mayor's and several other services.

Mr. Holmes: If our Public Works Dept. contacts the Electric Division to move twelve utility poles so that a road may be reconstructed there is no payment made from the Town to the Division although it was an unplanned expense of their labor. How do we account for that?

Mr. Lanning: That should be charged at the time that it occurs if there is no charge at this time.

Mr. Holmes: I did not see where that could be included in the report.

Mr. Russell: We went over these issues with the staff in the Division, other than the computer service we were not given any other areas that would be considered significant. Dollars would not be large enough to consider them.

Mr. Lanning: If there was a concern that there is a large cost that is not being compensated by the Town then that should be charged. It was not brought to our attention.

Mr. Gouveia: Those should be charged on a project by project base. It is a project cost and therefore should be charged to that project. It is not something that occurs everyday of the year.

Mr. Zandri: Each project, if it is a road project and there are utilities that have to be moved should be figured in as part of the cost of that project and the Division should be compensated for it. The example is a unique one and should be on a project by project basis.

Mr. Gessert: There is an entirely new fire alarm system that has been installed for the Town that was not billed to the Fire Dept. but was installed by the Electric Division at their cost, $105,000; community welfare is another contribution that the Division made at a cost of $68,000 budgeted this year that includes everything from community groups to helping with lighting, P.I.T. Crew, etc. There was a $50,000 pledge to the Police Dept. for their new computer, payments to the Town departments $235,000 for those and the North Main Street beautification project cost approximately $500,000. Wallingford has a special rate for the electricity provided to municipal buildings and street lights which equates to approximately $250,000 savings to the Town over what we would be paying to a neighboring facility providing us power. The net savings and contributions to the Town from the Electric Division in this fiscal year is $2.4 million.

Mr. Bradley: That alone is just one of the areas where the Town and its government is severely lacking in charge-back systems, not only in the Electric Division, same holds true up in Data Processing and other departments. We do need a true charge-back system to account for these costs.

Mr. Killen: In regards to the Fire Alarm System and the Contribution to the Police Department, you are in the enviable position of being able to use your funds which this fiscal body cannot touch, we could have funded that if your funds were made available to us. By the Mayor's veto they were not made available to us (applause). In regards to your comment about what we are saving compared to what a neighboring utility would charge us, you have no control over that, either the State Statute or the Charter says that you will charge a cost for the municipality.

Tim Cronin, 47 S. Ridgeland Road could not remember anything that the Town has ever done that has delighted him more than this study. This should have been done back in the 1970's. He apologized to the individuals at the Electric Division for berating them on **their depreciation account. He admitted he was wrong.** He was very upset, however, over the retained earnings account. The total retained earnings is $28.4 million, given the size of the company, is this way out of proportion to its size?

Mr. Russell: The retained earnings itself are not funds available for immediate use. In this particular case there is a large amount of money at the end of 1991, $15.6 million that is available for use. The balance, the difference between the $28 million is money that is not available, it is dollars that are invested in the plant.

Mr. Cronin: In a private company such as ours, are they allowed to record in their retained earnings account plant and equipment, I would think that it would have to be recorded into other accounts.

Mr. Lanning explained that that information Mr. Cronin is referring to on page 24 of the report may be misleading. We are trying to say that of the $28.4 million of retained earnings, plant & equipment would make up about $12.8 million of that. That is what was used to internally finance plant and equipment.

Mr. Cronin asked if CDM was familiar with the study performed back in the 1970's that shows the largest industrial customer's rates in town are so low that there is zero or very little profit on those rates charged to them? If you give $4 million back to the ratepayers on an equal basis, the large industrial customers are going to get the ultimate return, the residential customers will get the least.

Mr. Russell: CDM is not recommending that the $4 million be returned directly to customers. We propose that the effect of the wholesale rate increase be reduced by that $4 million so that the need to increase rates would effectively be reduced by $4 million in the future. Secondly, sure, if it were refunded, the majority of that benefit may go to large users, the fact remains that the burden or the contribution made by those large users is probably also significantly higher than that made by smaller users.

Mr. Cronin stressed to the Council to please remember what Mr. Russell tried to explain about using money accumulated at the present time for projects down the road. This applies to any project. If you accumulate enough funds in previous years from the taxpayers it is not fair to use if for something in the future like the power plant. He urged everyone to pay attention to Mr. Russell's comments on this issue. He congratulated the Council on a study well done.

Mr. Zandri: I have one comment on Mr. Gessert's chart on the contributions. A lot of those contributions were one-shot deals one year only. I want to also point out that the funds from those items are coming from the Electric Division but that money belongs to the people of Wallingford. You make it sound as though it is coming from an outside source, that belongs to everyone in this

Town (applause).

Mr. Russell: I really want to stress the fact that what we have done in this report is set up a procedure, a standard that could be used in the future. Clearly, if there are costs that ought to be reimbursed to the Division then those should be included in the future. We certainly would not recommend anything else. It is something that could be used for the future and reviewed and/or modified on an annual or semi-annual basis.

Dwayne Braithwaite, 26 Kingsland Avenue asked if part of this money is for transfer to the general fund, correct?

Mr. Killen: One of the recommendations was to make payment to the Town to retire debt, not to go into the general fund.

Mr. Braithwaite: One of the debts incurred by the P.U.C. recently has been a $3 million debt to my class (Rights & Deeds Lawsuit). As of yet, I have heard rumors as to where this money may come from but I have not heard anything definite even though we will be in court next week to determine payment. If this money is to be bonded I feel that it is unfair to the citizens when there is money in an account that can be paid out of pocket without anymore cost incurred to the citizens of Wallingford.

Mr. Edward Musso, 56 Dibble Edge Road found it hard to believe that the Town should use bonds to fund capital projects. He felt that if the Town has cash, that would be the proper way to use it to save on interest. He felt now is the time to put a generator in the Pierce Plant since work is very scarce and everyone is looking to get some, five years from now we will be glad that we did it.

Raymond Smith, Director of Public Utilities asked CDM what their experience was at the time that they were retained for doing studies on municipal electric utilities?

Mr. Russell: CDM's experience is not extensive.

Mr. Smith: Has CDM performed any municipal electric utility studies before this one?

Mr. Russell: CDM as a corporation, no. But that does not mean that there are not others.

Mr. Smith: I would have thought that this would have been an important criteria in the selection process. When I appear before the Council for waiver of bids, etc., I am given first, second and third degree cross-examination about the firm, experience and why they are being chosen.

Mr. Killen: I think you should direct your question to the members of the committee since they made the choice. CDM should not have to defend their position of being chosen.

Mr. Gouveia: First of all you must understand that there were three members on this committee, two Democrats and one Republican and all three unanimously recommended the present consultants. Furthermore, this was discussed in public session to which you were invited and could have......

Mr. Smith: I did not receive notice of the early meetings.

Mr. Gouveia:.....I can tell you that it was a long process, three members of the committee went through the process and individually, not collectively, but individually at first, weighted the different proposals and consultants and collectively compared notes and it happened that all three agreed on CDM.

Mr. Russell: The way the question was posed, Mr. Smith, you were asking specifically about CDM as a corporation. The more appropriate question would be what the experience has been of the individuals who have directly worked on the project with municipal utilities. Secondly, it is important to note that CDM as a corporation has worked for literally hundreds and hundreds of municipalities and utilities even though they may not be electric. The technical and financial issues are essentially the same regardless of what type of utility you are looking at. Personally as Project Manager, I have an Electrical Engineering Degree from a Major University, an Economic Degree from another Major University, I have worked for a couple of Public Utility Commissions throughout my career, I have worked for two electric utilities directly for a period of several years, in total I have direct responsibility of about twenty years within the regulatory arena. Mr. Lanning has very similar capabilities.

Mr. Smith: I am not challenging your credentials except that CDM's name is on the report.

Mr. Bradley: The personnel was thoroughly addressed in the technical proposal made by CDM which was forwarded to the P.U.C. Part of the criteria was evaluation, participation in municipal utilities, classified as electric first, water and sewer secondly. We went through a very extensive selective process applying different weights to different qualifications which was a very fair method of evaluating these firms. The P.U.C. and Electric Division did receive copies of the proposals made by all the companies and there was no feedback from the Division on the selection process. All personnel were notified of all events, meetings, copies of minutes of meetings and again, I believe we have bent over backwards to accommodate things like this.

Mr. Smith: I will agree that once the selection was made and there was a nice kick-off meeting and it was well accepted by the staff and all people at the Division. On page 6 is a comparison of rates of various utilities in the State of Connecticut. I have attempted to try to duplicate some of the numbers and I have come up with different numbers. What concerns me even more is, being experienced electric people, have you heard of the term, "load factor"?

Mr. Russell: Yes.

Mr. Smith: What you say on page 5 is, "these are typical customers in each class". Is the figure of 200,00 kwh consumption monthly?

Mr. Lanning: That is correct.

Mr. Smith: That leads me to a customer of 111% load factor which is an impossibility. Our average, good customer would have a 70% load factor. As far as I am concerned these comparisons are meaningless to me.

Mr. Lanning: Is your concern that Wallingford does not turn out as well as you would like?

Mr. Smith: No, I am saying the whole basis of your numbers are useless because there is no such customer who has 111% load factor. Do you agree with that?

Mr. Russell: Yes, I would like an opportunity to review our calculations as well as yours.

Mr. Killen: This kind of stuff will have to resolved one way or the other now because we will go home from here with incorrect impressions. We had this study done because we did not like the way things were going but it was done in an open arena and we are trying to get this act together. If you had questions at that time you should have brought them to CDM's attention before so that we can agree. You have had the final version of this report since July 24, 1991. You should have challenged them at that point so that we could hear both sides tonight. Now I don't know which one of you is correct tonight and I am not going to try to make that judgment and it is unfair that the rest of us are trying to reach a decision that way.

Mr. Smith: Each time you read this report you gleam more things from it. It did take a while to absorb and understand it. My position is that I think our rates are lower and the numbers used are not valuable since there is no such customer. On page 10 it states that other purchases are made from the Connecticut Municipal Energy Cooperative, just so that everyone clearly understands, we do not purchase from the Cooperative. They are an agent on behalf of the State of Ct. are receiving power from New York Power Authority. We pay bills to the Cooperative but we do not buy from them, they are an agent. I, in my studies, have found that the Town has never supported or infused any money into the Electric Division since its beginning. The first bonds authorized by the Town were paid back from Electric Division revenues. In CDM's opinion, has the Division always been self-sufficient?

Mr. Russell: Yes, as far as we know. The point we are making is that it still incurs the risk if that eventuality were to occur.

Mr. Smith: That is correct. With that in mind one way to avoid risk is the use of revenue bonds. I would think that an option here would be laid out that this is available to the community to minimize risk to the Town. Isn't that a viable option for the Division?

Mr. Russell: If that were to occur, that is correct. We are looking at what has occurred and assuming that the Town, in the future, will issue additional G.O. debt backed by the Town, itself. That is not to say that they couldn't issue revenue bonds instead of that.

Mr. Smith: With revenue bonds the Town has zero risk?

Mr. Russell: It has zero risk associated with issuing debt for that particular issue, yes.

Mr. Zandri: Any kind of bond that is sold, someone will assume risk.

Mr. Smith: The bondholders.

Mr. Zandri: Is there a higher rate on the bond?

Mr. Smith: Approximately 1/4%.

Mr. Zandri: We should not have to hire a consultant to have an option like that put before us to start with. My point being that you mentioned something that was not brought out before by your Division or our Finance Department of the Town.

Mr. Smith: That is supposedly one of the options laid out to you to use. This is a major one that is not even identified in the study. Is the intent to compensate the Town for the risk if the Electric Division goes out and borrows money and the Town has risk?

Mr. Russell: That is one part of the issue. The other issue is this ongoing possibility that if, for whatever reason, the Division falls short in its revenues and has deficits, the only way that those can be made up is through the general fund.

Mr. Smith: We talked before about the applicability to Water & Sewer operations. I took the same formula that CDM has developed on this return and have applied it to Water & Sewer and was somewhat shocked. Because the net book value in the Sewer Division in 1990 is $37,000,337.00, they should be returning $2.3 million to the Town if you were to apply this formula to all the utilities. I think that the immediate impact on the sewer rates would be dramatic but it would be consistent because if this is applied to the Electric Division and the only reason is because it is in good financial condition, is that appropriate?

Mr. Russell: We made no such recommendation.

Mr. Smith: I understand that but I am concerned what this could lead to because I am not sure if you would want to treat one operation different than another.

Mr. Russell: We would absolutely treat them individually.

Mr. Smith: Why?

Mr. Bradley: I think that the Mayor did raise that question and is answered specifically by CDM on the first two pages of their cover letter.

Mr. Smith: They stated very clearly that they are not ready to make that recommendation. This is a planning tool for the future and I am concerned about what that means to us in planning down the road.

Mr. Bradley: That is correct, a planning tool which can change from year to year.

Mr. Killen: CDM was commissioned to perform a study of the Electric Division which is what they did. If we used your simply analogy, every time you requested a waiver of bid, Ray, we would have to waive the bid for every division that comes in. Let's try to stick with this particular one. If they come forward and try to use the same criteria towards the other divisions, you have every right in the world to holler. We don't have to adopt it.

Mr. Smith: I understand you don't have to adopt it. Maybe I should put on my other hat as a taxpayer and say, maybe I should get a $2.6 million return out of the Sewer Division.

Mr. Killen: I wish you had put the hat on earlier, Ray, you have the expertise. Part of the problem in sitting here is your expertise doesn't come across the way we would like it to. We had to go outside to spend $45,000 to get people with expertise to match your expertise

Mr. Smith: These two gentlemen have more expertise than I do.

Mr. Killen: You were questioning their expertise before. We are going back and forth over issues that are not going to resolve anything one way or the other. If you have a specific charge to make then make it. Otherwise it is just a red herring being cast here right now.

Mr. Gessert: On page 2 of the introduction points out the statement, "..in general we would expect that some of our results could be applied to these other utilities". I think this would legitimize Mr. Smith's line of questioning of, if these were applied to other utilities what, in fact, the results might be?

Mr. Russell: We have no idea which of those would be applicable and to what extent without having a thorough review performed of those other utilities. You are misinterpreting what we are saying.

Mr. Bradley: Mr. Gessert, this was a question that was raised by the Mayor and I believe it was in writing and forwarded to CDM. Again, the study was an Electric Division study not one for Water & Sewer. I think these gentlemen out of courtesy acknowledged the Mayor within the report.

Mayor Dickinson: Perhaps the concern is that all of the utilities use identical, nearly identical forms of accounting and enterprise fund reporting. If there is a methodology applicable to one on the face of it, other than using standards of what reserves are there or what impacts on rates would be fairly practicable concerns as to impact on users. Other than using that, it would appear that there would be no difference in the applicability. I think that is the concern of the speakers but I recognize that the report was geared for the Electric Division and geared to the fact that there are reserves and there is a different financial picture of the Division than for Water & Sewer.

Mr. Killen: If I read what is in front of me, "One issue raised by the Mayor and not addressed in this report is whether or not our analysis was applicable to the Water & Sewer Enterprise Funds. The answer was, in general we have expected that some of our results could be applied to the other utilities." The other statement that could have come out is that none of them could be applied. I would challenge that particular aspect of it. They made the best answer to a question that was an overall general question and gave an overall general answer and are being challenged on it. I don't understand that.

Mr. Zandri: I think that one of the concerns that I have had all along not only with the Electric Division but with all of the utilities is one of fairness. One of the things that concerned me during the budget process is when I saw in excess of $500,000 in tax dollars going to subsidize the Sewer Division for one of its bonding payments. How do you explain that to the person who is on well water and has a septic tank and gets not benefit at all whatsoever out of those utilities, that some of his dollars are going to subsidize that. I think that this is one of fairness. If we had a private water utility they would be paying their taxes and it would be an equitable situation, I think that is what we are all striving for. To be equitable for everyone. So when you start pumping tax dollars into the Water & Sewer Division, just remember that not everyone in this Town utilizes those facilities.

Mr. Henry Renfrew, 25 Audette Drive feels that there should be some consideration and a look into the issue of charging North Branford customers a different rate. He found it interesting that the point of view from the P.U.C. was Mr. Gessert who immediately brought to everyone's attention a lawsuit where another P.U.C. failed. We heard about seventeen times the word "arbitrary" and "discriminatory" stated to us. Mr. Gessert also pointed out that it cost that municipality over $600,000 to lose that case. In thinking about that for a while and then hearing in the middle of the discussion that there is a special rate for municipalities, the electricity here at the Town Hall is the same at Mr. Renfrew's house. He asked, "is this arbitrary?" It did not make sense to him that the they would try to defend the position and not wish to explore. That is the tone of the legal opinion presented. The opinion was one listing why we cannot do this, not what the opportunities are. The whole tone of the legal opinion was one of why we cannot do this. We have already seen another legal opinion on a public utilities area and that was from Norbert Church as to why we can or can't. He encouraged the Council to pursue this defensive attitude that the P.U.C. has regarding not changing the rates and pursue an open-minded view on that issue as to look at the difference between ourselves and the factors relating to the cost of our electricity vs. theirs. He congratulated the Council for taking this move. The P.U.C. has a long history, and anytime anyone raises a question about any of their actions of defend our actions and attack the messenger. Those messages have been repeated over and over again. He stated one more time, defend our actions and attack the messengers. We saw that in Rights & Deeds, we saw that in all other issues. We asked who established a 16,000 cubic foot rate for water and they could not produce the documentation and after we pursued it, it is now down to 12,000 cubic feet. With no refunds by the way. As their defending their actions, we have to remember all the holes that have been occurring in the attacks that are there. We need to keep that in perspective as we listen to Mr. Smith and Mr. Gessert's next response (applause).

Mr. Cronin added the comment that the Electric Division was established over 50 years ago, prior to any proper municipal procedures were recorded. He assured everyone that if the Division were placed in existence as of today, they would be looked upon as any other department of the municipality, not a separate entity.

Mr. Smith cautioned everyone that Redding, Mass. attempted to charge some of their customers different rates who resided in different communities and the legal costs to defend themselves totaled more than $650,000. They settled out of court. The State got involved in the case which concerns him a great deal. If the people in North Branford feel that they are not being protected and we could have a portion of the utility accountable to the D.P.U.C., it would be another agency that we would have to deal with. The settlement was that everyone would be charged the same rates but the communities would share a portion of the returns that had previously gone solely to Redding, Mass. It could backfire.

Mr. Bradley: These are recommendations. The hardest part is yet to come of this study. That is, the recommendations and how do we look at this for policy for the Town. We can discuss this from now until the cows come home and get absolutely nowhere. Keep these questions in mind if and when policy decisions come along that these points are addressed.

Mr. Smith asked if CDM has examined to see what the impact of the rates would be if no money was turned back to the Town and what the impact to the ratepayers be at that point?

Mr. Russell responded that it would have to be determined whether or not the $4 million would be used as a rate stabilization fund or just left in the same fund that is now earmarked for capital improvements.

Mr. Smith: In either case at the end of four years there is a $4 million differential that has to be picked up somewhere or reduced.

Mr. Russell: It would depend on what you did with it. In one case you are saying put it towards rates and another case.....

Mr. Smith: If you did not adopt this method and take $1 million per year and apply it toward the rates then you would have a significantly higher, substantially higher rate impact?

Mr. Russell: That does not have to do with the money earmarked to go back to the Town but the money that is earmarked to offset the wholesale rate and the money set to pay for part of the capital program. Again, we are not saying, don't put any money towards the capital program.

Mr. Smith: If you put an additional $4 million or the entire $8 million back into the rates, then they could be substantially lower.

Mr. Russell: Absolutely.

Mr. Smith: On the last page of the schedules, this assumes that the Electric Division installs a gas turbine?

Mr. Russell: That is correct, based on the numbers developed on the consultant who reviewed that issue for the Division.

Mr. Smith: Is this scenario with full bonding, no bonding, half bonding?

Mr. Russell: It is with the alternative recommendation of instead of splitting it three ways, $12 million, $4 million each, it is with the assumption that 50% or $6 million will be used directly to offset the initial cost of the gas turbine and that the other two $4 million amounts would be reduced by $1 million each to compensate.

Mr. Smith: Have you included in the cost the additional taxes that have to be required because if the Town adopts the surrogate tax concept then there is an additional $660,000 that would be required in 1991 to be borne by the ratepayers?

Mr. Russell: You are referring to the P.I.L.O.T. (Payment In Lieu of Taxes) payment, yes it is included.

Mr. Smith: The additional depreciation that would be required if you add a $20 million or $18 million project, the depreciation in this particular case happens to match up to the depreciation in the base case, so there has got to be an additional $900,000 to $1 million that has to be borne by the ratepayers, I am wondering where that is accounted for?

Mr. Russell: I believe, in thinking about it a little further, the numbers that I used for the net savings shown towards the bottom of the table developed by Black & Veatch did result from inclusion of all of those factors. I did not break it out and show it in the depreciation and debt service, how those would change, your consultant did that for me.

Mr. Smith: Black & Veatch did not deal with the tax issue so there is $660,000 that would not show up here.

Mr. Russell: I assume that they treated the expenses properly. If they did not....

Mr. Smith: That was never an issue until this (CDM's) study was done. I know that it is not covered in their numbers.

Mr. Russell: I am sorry, the P.I.L.O.T.?

Mr. Smith: Yes.

Mr. Russell: I am not sure that I can tell from looking at this schedule, I would have to refer back to other papers.

Mr. Smith: Again, if it is, I would like to know, it is important. I have asked Black & Veatch to go back and identify it as a project cost since it was not there originally. If it is a cost to the ratepayer it has to be addressed for it will have impact on the rates.

Mr. Russell: I will do that, certainly.

Mr. Bradley: Does that take into consideration revaluation?

Mr. Smith: The way that they arrived at the numbers when they did the surrogate tax....I'm not sure that they took into consideration revaluation. In fact, the way to arrive at the tax number is interesting. They took the whole system and deduct what we pay in taxes to Branford. I would think that a more appropriate methodology for that would take part of the system that is in Wallingford which you could rightfully tax. For example, what if Branford turns around and triples their tax as a result of reval? The Wallingford share of that immediately goes down. The mill rate never changes, it is 39 mills. Whether or not that is an attempt to adjust for that, it may be. Is there any reason why CDM chose 35 years as depreciable life (page 54) as opposed to 25 years?

Mr. Russell: We were attempting to derive a surrogate for estimating a renewal and replacement amount. We used the 35 only because it is a representative period of time for many large pieces or equipment used by utilities in particular.

Mr. Smith: For this portion of capital you would suggest that the current ratepayers build the fund to replace that portion of the plant or equipment, whatever, that may last another 20, 25 or 35 years in essence?

Mr. Russell: In some cases that may be true, but predominantly what we are talking about here is somewhat shorter lives and they are facilities that are designed to serve current customers, not to extend the capacity or to serve expansion or need for expansion in the future. We are trying to develop a methodology for computing this annual charge through normal replacement allowance. Normally renewal and replacement is computed on the value of replacement plant which would be extremely sizeable for most utilities. As an interim measure we are proposing this alternative which, although it would not produce nearly that level of revenues, it would produce a sizeable revenue which when used in combination with your depreciation charges should be adequate to allow you to renew and replace your entire system over time.

Mr. Smith: Let's push ourselves five years ahead. Assuming we have built a gas turbine, our plant is now considerably higher. Would you recommend to adjust the R & R fund based on that? I have come up with figures that show the R & R fund in 1996 should be $6.7 million if we go to a turbine. Would you recommend adjusting that?

Mr. Russell: I would recommend adjusting, over time, after you have had the experience of the benefit of seeing what the fund has done in prior years. I could not say at this point in time whether or not five years down the road I would suggest the same method be applied to all new plant as you suggest.

Mr. Smith: What is the rationale behind the "capping" of the fund?

Mr. Russell: Simply, you don't want to make the fund so large that it has a very negative impact on current ratepayers.

Mr. Killen asked if any of the Council Members were gaining anything from the conversation?

Mr. Bradley: I think that it basically states in that section that this is a guideline and it shrinks and can expand over time.

Diana Hotchiss, 38 Clifton Street stated that the study was very thorough but way over her head. She asked some questions on issues that she wished clarified for her. She stated that Mr. Smith was present at the February 7, 1991 Joint Finance Committee P.U.C. Meeting as was Mr. Barry and several P.U.C. and Council Members. She asked why all this was not brought forth then. She asked why North Branford Electric customers can't have off-peak and on-peak hours?

Mr. Smith explained that it is a very costly program but worthwhile and he did recommend adopting the program to the P.U.C. approximately five years ago. Next time the rates are adjusted it can be looked at again.

Ms. Hotchkiss felt that we should not have to go out to bonding on items such as Community Pool if the Electric Division has funds to support the cost.

She went on to say that the P.U.C. is part of what is paid for in the taxes and did not understand why the utility is fighting and saying that the money is theirs and they are going to keep it. If it is our money they have, why doesn't it go back into the fund? She read a note that states, "All Town Departments return their surpluses to the General Fund at the end of the year except for the utilities. The ordinance establishes a rate of 45/55 meaning that the Town will take an amount not to exceed 55% of the utility profits not gross." That has not been followed for years with the utility department. She could not understand why her taxes went up because there was not enough surplus to run the Town and yet the Electric Division gets to keep their money. It is their own private piggy bank. She suggested giving the Rights & Deeds class their settlement out of the funds (applause).

Mr. Gessert stated that, as a P.U.C. Commissioner he does not feel he owns the funds. He feels that the Division is treated differently than the Police Dept., which is treated differently than the Personnel Dept., etc. The main reason is that it is run as a business. Most other Town Departments do not operate the same way. The Council and Mayor over the last couple of years had come to the conclusion that the 45/55 rule was not appropriate and decided to take more.

Mr. Bradley: I recollect it going back further than just a few years.

Mayor Dickinson: It is not necessarily more than the 45/55 but it is calculated not upon what net income is but upon a formula starting with an $800,000 figure. Now I think it is almost $1.3 million. The reason for departing for basing it upon net income is because you can never be sure what the net income is in a year and you could end up without any money being contributed into the Town which effected the capital and non-recurring fund. In the near future, it would be a recommendation to repeal that ordinance simply because it does not provide a dependable contribution to the Town, the result of which would be a capital and non-recurring fund which could be underfunded at any given time. There is no way to plan.

Mr. Gessert asked how the time was allocated for the Comptroller's Office in the expense the Electric Division should pick up for that service?

Mr. Lanning explained that basically the allocator was based on total dollars expended in the budget. Whatever percentage the Electric Division would handle that.

Mr. Gessert asked if Purchasing's figure was based on the number of purchase orders?

Mr. Lanning: Yes.

Mr. Gessert pointed out that a very large sum of money could be expended on one purchase order with the Electric Division and many other departments could use a vast number of purchase orders to purchase many small items at a much lesser amount of money. It takes a great deal more effort on the part of the Finance Department to process many invoices from the general government as opposed to one invoice equalling the same amount for the Electric Division. The same logic applied to the Purchasing Department and purchase orders should have been applied to the Comptroller's Office.

Mr. Lanning explained that the Comptroller's Office was based on 50/50 taking into consideration half of the activity that goes on. Predominantly the reason that they decided to stay with 100% of the dollars and allocate that which would include the payment to N.U. is because the Charter responsibility for that payment boils down to that office. He and that office are ultimately responsible for anything that goes out as far as payments and as far as controlling those funds. The Mayor's and Council's Offices are allocated the same way, on responsibility.

Mr. Cronin stated that he was irritated by the differentiating of ratepayers, taxpayers, etc., they are all one and the same.

Steve Knight, 289 Ivy Street asked where the expense was incurred for a new generating plant. Did we incur it everyday for the past thirty years while we were using up the Pierce Plant? If that be the case then the present ratepayers should be putting aside something toward offsetting the eventual expense that we are facing building a new power plant. It seemed that the Electric Division was doing a prudent thing when they started building up a reserve to replace equipment/plant/services. He asked the Council to postpone the burden of a $20 million expense to those people who may or may not have been responsible for the necessity of replacing the plant. It seems that we want to spend the money that we have saved and heap the $20 million plus finance costs on to our children. He questioned whether that was financially prudent.

Mr. Cronin stated that in the public sector, you pay for what you will use.

Mayor Dickinson asked, in regards to recommendation that $1 million be paid over to the Town for suggested debt retirement, is that a replacement of any money now appropriated for debt retirement or is it in addition to what is already appropriated?

Mr. Russell: I would assume that you would use it as a replacement. It is $1 million for four years, $4 million in total.

Mayor Dickinson: At the end of the four year period there would be no money, that payment then would have to be generated from taxes is that correct?

Mr. Russell: That source would cease after four years.

Mr. Lanning: If what you are referring to is, at the end of four years that $1 million per year would drop off and the tax base would shoot up, the answer is no, because what you are really doing is reducing the level of debt that you are paying, the debt service that you are paying is going directly into reducing, over a longer term, levelizing that over a longer term......

Mayor Dickinson: Wouldn't that only be the case if you increased the payment by the $1 million dollars? If you replace what you are already paying in debt retirement what you pay on debt. You are meeting your current payments only $1 million of it is coming from the Electric Division.

Mr. Lanning: You are paying the principal, reducing the debt service payment over a longer period of time.

Mayor Dickinson: That would not impact the money generated in any given year on the mill rate for debt retirement?

Mr. Lanning: You would be looking at a levelized tax base, all other things being equal, you would be looking at a levelized tax rate because it will be reduced each year and at the end of that year it will stay at that level.

Mayor Dickinson: At the end of the four year period, can you quantify what the rate difference would be between..if the payment schedule remained as it is current with a 5% increase each year from the $1.3 million or using your recommendation, what would be the difference in the electric rate at the fifth year?

Mr. Russell: We need to differentiate between the dollars coming out of reserve and the annual payments that would be used to replace the current transfer dollars. We proposed a method that would use both a P.I.L.O.T. computation and return on investment computation. The impact on the rates from using the current reserves, we have already talked about to the extent that you take money from the reserve that could have been used to reduce rates that is a one to one relationship. In other words, instead of taking the $1 million per year and giving it back to the general fund, you reduced the impact of the wholesale rate increase by another $1 million. Then you would have $1 million less in total revenue requirements than we have proposed.

Mayor Dickinson: If you take the figure in 1996, it would be $1.6 million and then take the R.O.I. and whatever that figure would be and then add whatever the proportionate charges are and at that point subtract whatever the payment would have been under our current formula, $1.3 million at 5% per year, that difference in dollars must be generated from rates, I'm just curious what would be the rate increase in order to accomplish that?

Mr. Russell: That was not part of the calculations, I could give you a back of the envelope estimate or we can use the model under that alternative scenario.

Mayor Dickinson: I would be very curious to know that.

Mayor Dickinson: My understanding is that a cash position is the strongest fiscal position, exchanging that for debt position weakens a fiscal position, would you agree with that basic premise?

Mr. Russell: With all else being equal that is probably true. There could be circumstances that might effect it either way.

Mr. Lanning: It is not as cut and dry as that, you must look at the circumstances involved. In certain circumstances such as building a gas turbine, for example, it may be more beneficial to finance it 50% debt and 50% cash, levelizing the payments out for the bond issue over the life of the plant.

Mayor Dickinson: Then you would agree that the larger percentage of your current and expected obligations are represented by cash in the bank the stronger fiscal position that you have?

Mr. Lanning: What is the purpose of having a stronger fiscal position if you are not going to use it for issuing debt?

Mayor Dickinson: If a rating agency were to look at an operation what is the strongest fiscal position for that entity?

Mr. Lanning: If you are going to a rating agency you are obviously going to be issuing debt. There is some purpose for doing that. It would be for the purpose of keeping the financial position if you are not going to be issuing the debt. The question has a circularity to it. Why are you going to the rating agency to begin with? It has to be to issue debt.

Mr. Zandri commented on Steve Knight's concerns as follows: Depreciation is when you have an existing facility that you are allowed to depreciate that facility and those dollars are there for future to expand or improve on your facilities. If you go at the D.P.U.C. as far as new facilities, the State will not allow any cost of a new facility to be put into the rate structure until after that facility is on-line so that the costs of that facility is paid for by the people who are using it. That is the way it is done in the public utility sector.

Mr. Bradley: Our bond rating is based upon our financial position and also funds that we maintain on hand within the general fund is that correct?

Mr. Myers: Credit rating is based on three primary factors; overall financial position, financial management of the community, and socio-economic factor. The most important, naturally, is financial position.

Mr. Gouveia: In discussing the R.O.I. options, why does CDM recommend the book value option as opposed to 5% of gross revenues?

Mr. Russell: Again, you have to put it into perspective of what we are trying to do and that was to come up with a standard method that you could use to base the annual transfer payments from the

Division to the Town. The gross revenue is a perfectly good method it is used by many communities throughout the country. We opted for the P.I.L.O.T. in combination with R.O.I. because we feel it is the most reflective of what the actual conditions are. The gross receipts is still very much an arbitrary basis much like the current method they use.

Mr. Gouveia: I understand the P.I.L.O.T. but the R.O.I., you chose a book value to determine that R.O.I., why?

Mr. Russell: Again, because it provides a standard and reflects what the investment is that the community has in the utility.

Mr. Gouveia: We did not want a large infusion of money into the budget giving the people a false sense of security. We were looking for some sort of amount to expect on a yearly basis like the State knows how much it can count on from the Town of Wallingford.

Mr. Russell: The percentage method is more stable. The recommended method is stable except for periods that you have large swings in total investment, total plant. It has some basis for assessing a particular dollar amount.

Mr. Gouveia: What is important is not the dollar amount but the methodology used so that you have a fair amount of money that you can count on. I feel that report was a good one, however, I can't help but feel this time perhaps the report could further be enhanced if Mr. Smith chose to make his comments at previous meetings. That kind of posture is symptomatic of the kind of lack of cooperation that, too often, we get from people that we pay good money to lend us the kind of expertise that we don't have. The opportunities are there and it is almost deplorable that you (Mr. Smith) waited until the report is given to make those kind of remarks at this time.

Mr. Russell: I have offered to make some additional computations to specific requests for Mr. Smith and the Mayor and I will do that.

Mayor Dickinson: Just a clarification. Is it correct that at the end of the four years the Electric Division would have a $3.6 million reserve retained fund vs. the $15 million or $16 million today? Where do we end up?

Mr. Russell: That is true with the caveat that that is assuming that there is no change from year to year in the net income.

Mayor Dickinson: Based on all the assumptions here, we would go from a $15 or $16 million to a $3.6 million reserve?

Mr. Russell: Of course you realize at the moment that there is an additional amount that has been recorded at the end of Fiscal Year 1991 due to a net income? So the $15 million is more like $18 million.

Mayor Dickinson: That is correct.

Mr. Lanning: Are you including the $4 million that is still set aside for the turbine as we are recommending? There would be $4 million left for the turbine plus the $3.6 million for the cash reserve. It totals almost $7 million.

Mayor Dickinson: So the report is saying that we will go from $15 million to $7 million?

Mr. Russell: No, Mr. Lanning is confused. The $4 million could go to other plant if you chose not to build the gas turbine, that could be invested in other expansion facilities. In effect what you are saying is true, all else being equal, not counting any changes from year to year in net income, there would be $3.6 million remaining in reserve funds.

Mr. Bradley: I would like to thank everyone for coming.

Mr. Killen: I will entertain a motion to adjourn.

Mr. Holmes made a motion to adjourn, seconded by Mr. Bradley.

VOTE: Papale, Parisi and Solinsky were absent; all others, aye; motion duly carried.

There being no further business, the meeting adjourned at 10:45 P.M.

Meeting recorded and transcribed by:
Kathryn F. Milano
Kathryn F. Milano, Town Council Secretary

Approved by: ______________________________
Albert E. Killen, Chairman

____
Date

____
Kathryn J. Wall, Town Clerk

____
Date

Presentation to the Wallingford Town Council on the Electric Division Study

Camp Dresser & McKee Inc.
September, 1991

Overview

- Introduction
- Concerns and Priorities
- Study Objectives/Approach
- Findings & Conclusions
- Recommendations
- Questions and Discussion

Camp Dresser & McKee

Concerns & Priorities

- Fair & Comprehensive Investigation
- Focus on Specific Tasks in Contract
- Unbiased Expert Opinion
- Final Report and Fully Supported Recommendations

Study Objectives

- Determination of Payments for Town Services

- Assessment of Transfer Payments Based on Payments in-lieu-of Taxes and Alternatives

- Evaluation of the Retained Earnings Account and Depreciation Charges

- Determination of Necessary & Sufficient Reserve Levels

- Assessment of Total Revenue Requirments and Appropriate Rate Levels

Approach

- Review all Relevant Documents
- Interview all Key Officials and Staff
- Facilities Tour
- Follow-up Questions & Second Interviews
- Interim Presentations <--> Feedback (Public Meetings)
- Draft Report
- Internal CDM Review
- Presentation of Draft Report
- Revise/Edit
- Final Report

Camp Dresser & McKee

Payments to the Town
Findings and Conclusions

- Town Services
  - Necessary & Effective
  - Not Fully Compensated
  - Offset by Data Processing Services
- Payment in-lieu-of Taxes
  - Large Asset Base - ($36 Million)
  - Compare with Private Utility
  - Current Method
- Return on Investment
  - Ownership/Risks
  - Outside Customers

Recommendations

"The following recommendations are designed to provide a balance between the Division's goals of providing adequate and reliable service at the least cost with the Town's fiscal responsibilities and the burdens placed on taxpayers."

Payments to the Town
Recommendations

- Town Services
  - Increase by Approx. $150,000
  - Add Capability to Track Labor and Computer Time
  - Update Every Two Years
- Payment in-lieu-of Taxes
  - Basis - Assessed Value Times Millage Rate ($933,000 in FY 1990)
- Return on Investment
  - Basis - Book Value (Less Debt) Times Rate of Return Standard ($861,000 in FY1990)
  - Establish a Rate Differential for Customers Not in Wallingford

Division Reserve Requirements
Findings & Conclusions

- The Division's CIP for T&D Facilities is Necessary & Sufficient
- The Division's CIP for Supply/Demand Mngt. Facilities is Undefined at this Time
- The Division's Cash Working Capital Reserve is Overly Conservative (Approx. $3M)
- Reserves Held in Anticipation of a New Generating Facility are too Large

Division Reserve Requirements
Recommendations

- Carefully Consider All Supply & Demand Management Options
- Establish a Cash Working Capital Reserve of $520,000
  - Supplement by Pooling Funds with the Town
- Establish an R&R Reserve
  - Annual Funding Approx. $1 Million
  - Cap the Reserve at About $3 Million

Retained Earnings or Cash Balances
Findings and Conclusions

- The Division has Available a Large Cash Balance - $15.6 Million (FY 1990)
- The Division Plans to Use these Funds to Pay for Future Capital Improvements
- The Division's Capital Structure is Highly Underleveraged (Only $1.2M Debt)

Camp Dresser & McKee

Disposition of Cash Balances
Recommendations

In Addition to Proposed Reserve Funds ($3.6M)

- Offset the Wholesale Rate Increase in 1993 ($4 Million)
- Fund Part of the Capital Improvement Program ($4 Million)
- Additional Transfer to General Fund - Repay Portion of Town Debt ($4 Million)

Camp Dresser & McKee

Revenue Requirements and Rates
Findings and Conclusions

- The Division is in Good Financial Condition & Rates are Adequate in Short Run

- Purchase Power (PP) Costs are Likely to Increase in Jan. 1993 (15%-25%)

- PP Costs 80% of Total Expenses (12-20%)

- Total Costs (Rev. Reqts) Increase at 7%/Year through 1996

Camp Dresser & McKee

Revenue Requirements and Rates
Recommendations

- Dispose of the Cash Balance as Proposed
  - Lowers Rev. Reqts. by Approx. $2M/YR Over the Next 4 Years

- Increase the Use of Bonds to Fund Capital Projects
  - All Facility Expansion Projects

- Retail Rates Will Probably Need to be Increased (The Exact Level and Timing Depends on Many Variables) .
  - FY 1993 Approx. 8%
  - FY 1995 Approx. 13%

Camp Dresser & McKee

Recommendations

"The following recommendations are designed to provide a balance between the Division's goals of providing adequate and reliable service at the least cost with the Town's fiscal responsibilities and the burdens placed on taxpayers.

It is a difficult task and one which ultimately must be decided by the combined efforts of all the interested parties - the Administration, the Town's legislative body and Division management."

Camp Dresser & McKee