SECOND TAXING DISTRICT COMMISSIONERS
Regular Meeting
July 19, 2011

Present:	Mary E. Burgess	Chairperson
	Al Ayme	Vice Chairperson
	Maria Borges-Lopez	
	Mary Geake	
	Sherelle Harris	
	Mary Mann	
	Cesar Ramirez	
Also Present:	John M. Hiscock	General Manager
	Gwendolyn Gonzalez	Asst. District Clerk
Public Present:	None	

Call To Order

Chairperson Mary E. Burgess called the Regular Meeting of the Second Taxing District Commissioners to order at 7:00 p.m. on Tuesday, July 19, 2011. The meeting was held at South Norwalk Electric and Water, One State Street, South Norwalk, Connecticut.

Acceptance of the Minutes

Commissioner Burgess: "I will call this regular meeting of the Second Taxing District Commissioners to order, Tuesday, July 19, 2011 at 7:00 pm. I need a motion for acceptance of the special meeting minutes of July 28, 2011. (June 28, 2011)."

Commissioner Geake: "I'll make a motion."

Commissioner Mann: "I'll second."

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

Commissioners simultaneously: "Aye."

CONSENT AGENDA

Electric Write Offs-April 1, 2011 thru June 30, 2011

Commissioner Burgess: "And motion to approve the Consent Agenda

Commissioner Ayme: "So moved."

Commissioner Geake: "Second it."

Commissioner Burgess: "Okay, All in favor?"

Commissioners simultaneously: "Aye."

[Commissioners Harris and Ramirez arrived at the meeting 7:05 pm]

Commissioner Burgess: "Alright, Mr. Hiscock."

REGULAR AGENDA:

Mr. Hiscock: "Before you get off the topic of the Write Offs I just want to mention something to you that we are working on not related to this list. As you probably recall the list used to have big numbers and the numbers are getting smaller and smaller and it relates to when we got aggressive with respect to collections, and to put a system in place we chase people around and you know, we went through our process. However, it started in 2008 the DPUC opened hearings on serious illness and life threatening illness due to the rules and respective medical disclosure of information and they forced all of us in the utilities to simply take all the medical information out of the form and let the Doctor check off the box life threatening or serious illness. You cannot shut a life threatening customer off and you can only shut a serious illness customer off and anybody in the family during the non moratorium months. And on the face it's not a bad situation. It's not a bad program. But unfortunately what's starting to happen is we're getting applications for serious illness and then find out that that doesn't shield them. They come back next week with a life threatening and we appear to be running into a situation where a certain medical group is giving them out. So, in the next couple of weeks we're going to try to pursue some remedies with the DPUC. We have the right to appeal and then essentially the DPUC have to make a determination so we probably will take a few of the motions, of the most aggressive ones and simply see how the DPUC reacts and see if it changes things. So, if you happen to get comments from anybody, that's what will be going on over the next 4, 5, 6 weeks. Taking a look at those issues and try to get somebody to render some decisions."

Commissioner Geake: "Can I ask a question?"

Mr. Hiscock: "Sure."

Commissioner Geake: "If you feel that it's one doctor or association more than another when they file, can you take this legally and or criminal charges could be filed?"

Mr. Hiscock: "No, it's really up to the DPUC to make a determination. If they are finding that they believe it's a problem they will discuss it with the physician who happens to be certifying to these situations. And some of them are valid. I'm not saying they are not valid. Some of them are. Some of them just appear to be not valid based on the fact that a sort of a small community where we kind of know whose who and in the old system we knew who was who, and we knew who to say no to. But we are not allowed to do that anymore so this small list now is starting to grow. You won't see the write offs for a couple of years, but they are starting to grow. I just wanted to let you know that. It won't show up until about 2015 so, it will be about 4 to 6 years before we do the write offs but it will increase the reserve for the write offs. And I just wanted to let you know about that. Not a big issue. I figured if you get a call or a complaint you know, you can contact me and we'll go from there."

Commissioner Ayme: "Through the chair, if I may, I could not hear very well what you said in the beginning. Is this a case where we can, due to illnesses we cannot shut off service to someone. Is that what you are saying?"

Mr. Hiscock: "Right, we cannot shut off service to someone who has a physician certifying a life threatening illness. And we can only shut off during the non moratorium months, with the June through October for the serious illness, and…"

Commissioner Ayme: "Right, that's what I thought it was, okay."

Mr. Hiscock: "As I said, many of these are appropriate, some of them are not. So we are going to go through the process pick appropriate ones and send a letter of appeal to the DPUC and see how the process works. See what the reaction is on all sides."

Commissioner Ayme: "So the end result, what's the recourse, let me ask you this."

Mr. Hiscock: "Recourse is simply from our perspective, and appeal to the DPUC and let them make a judgment as to whether the physician certification is correct."

Commissioner Ayme: "And that's a global recourse not a case by case."

Mr. Hiscock: "Case by case."

Commissioner Ayme: "Oh, a case by case."

Mr. Hiscock: "Case by case."

Commissioner Ayme: "Oh my God."

Mr. Hiscock: "We don't have a lot."

Commissioner Ayme: "No."

Mr. Hiscock: "I think the list now is in the 20's. I mean, it's not huge. But it's in the 20's and its growing fairly quickly."

Commissioner Ayme" "Okay."

Mr. Hiscock: "The number, and what I mean 20, I mean the number of individuals who are applying for this status."

Commissioner Ayme: "Thank you."

Mr. Hiscock: "Thank you."

Commissioner Ramirez: "Sorry to be disturbing you. Are we in the right write-offs or?"

Mr. Hiscock: "We've passed, we finished the write offs and I was simply mentioning to the commissions while these numbers look good, in the future they may not look as good because of this."

Commissioner Ramirez: "if you will, through the chair, will there still be appropriate to ask one question about the write offs?"

Commissioner Burgess: "Um, huh?"

Commissioner Ramirez: "Okay, on the 94 West Avenue, which is, according to this document, the Shell, is that a Shell station?"

Commissioner Mann: "Yes."

Mr. Hiscock: "Yes."

Commissioner Ramirez: "May I ask why we're asking him to write off over a thousand dollars when they are still in existence?"

Mr. Hiscock: "This is not the same business. That's the problem we ran into on this one. What happens in some of these situations, a business will transfer."

Commissioner Ramirez: "I'm sorry. You're trying to tell me it's not the same owner. It's the same business but not the same owner. Is that correct?"

Mr. Hiscock: "Well, I mean it's the same physical facility, but it is…"

Commissioner Ramirez: "But the same Shell station, so it changes into a business owner."

Mr. Hiscock: "It is, no, the problem is I believe, because I went through this when it happened. I was kind of infuriated with this. Shell owns the property."

Commissioner Ramirez: "That's correct."

Mr. Hiscock: "But they lease it to operators. And those operators are independent business men. And then that business man sells it to the next one down the line and what happens is, we don't know about it. Nobody says a word to us. We send bills. The new guy keeps paying the bills. We have no idea what's happened until it starts to get into arrears. So we start going after the guy. And then when we start getting copies of all of the information we find out that three years before this business changed hands and the LLC that owned the business previously…"

Commissioner Ramirez: "Doesn't exist."

Mr. Hiscock: "Is gone. So that's how this kind of thing happens. It's a difficult situation because our only other choice is the letter. It goes to the Land Records every day and look and many times these leases aren't on the Land Records anyway. So it just becomes a difficult situation. I mean its, it requires us to be diligent with respect to collections. Sometimes it gets out of control."

Commissioner Ramirez: "Is there anyway shape or form to trace the previous…"

Mr. Hiscock: "No, because, I mean, there is only one purpose for forming LLC. And that's to get to run and hide from your liabilities."

Commissioner Ramirez: "Right, basically, yes."

Mr. Hiscock: "Limited liability company. I mean, that's why they were formed. So, once you get down to the end, and there are no assets left, there is nothing to chase. So occasionally we run into that kind of a situation. And there are some we are working on right now that are difficult situations between landlords and leases and subleases and assignments of leases, all of which we often found out after the fact."

Commissioner Ramirez: "Would it be fair to say that it's of the same case of 57 and 59 North Main, 104?"

Mr. Hiscock: "Let's see where they…"

Commissioner Ramirez: "Come out and clay, the previous business that used to be there."

Mr. Hiscock: "Yes, a business, I have no idea on that specific one. I never touched that specific one. Another thing that has occurred, we were not diligent in the past with respect to making sure we were doing business with somebody who is legally in the building. We have had some awful write offs in the early 2000's with the businesses that would open an account in the name of the storefront. And the storefront name was the storefront name and it was not the business. And we had several of those that we started chasing down. We knew who everyone was but we never had a contract, an account with the actual legal business. And that's why… Gwendolyn does a lot of this work on the commercial ones. We demand leases. We demand assignments. We check the Secretary of State office to make sure that the entity whose name legally exists, I mean. You have to go through a lot because there is a significant portion of the commercial population who is very good at avoiding their responsibilities. That's the polite way of saying it."

Commission Burgess: "Okay, can we move on."

Simultaneously: "Alright."

Mr. Hiscock: "Okay, Item 4. The purpose of this, this evening is sort of to talk a little bit about, and answer the commission's questions about where we are in the Water Fund. Why we, how we've gotten to where we are. What the real issues are and I like to talk about the two documents. You have the one that looks like this and that's really just a statement of cash uses and sources abbreviated and modified to simplify it. And then you have this document folded on 5 pages which is the summary trial balance. It's sort of the detail of the accounting system, prior to it being in the form of a balance sheet and profit and loss statement. This is the raw accounts, the raw data and you can see that we have obviously a significant number of accounts. There are 5 pages of them. Most of this information isn't terribly helpful to anybody other than somebody who sees it all the time. On the first page there is something called un-appropriate, un-appropriate during surplus. That's in the accounting system. It's counter balancing entries. They are of no value other than it keeps track of everything in the system and year to date income and that's by department and account number. Those aren't really worth looking at. I do want to call one to your attention though. On the first page, 1 of 5, there is an account number 13101 and it's the cash account and it's the checking

account. And it shows our checking account balances in the raw utility, the water fund only now, in 2006 through 2010. It varies. It goes up and down. And the reason it varies significantly here, is one, we were in the filtration plant process. We were getting money from the state on advances. We were paying money out to the contractor, but the most, probably the most important one is that one to the extreme right and it shows minus 199,410 dollars. When I first looked at that data, it surprised me until I looked further down and account number 16502 was prepaid property tax in 205,000 dollars. The long and the short of it is, when you add up the pre-pays and everything else we did have a positive cash balance for a very small one in the end of 2010. So, I just want to point that out to you because you may you know, go back and look at this in detail and be surprised by some of what you see. The accounts over the next couple of pages are liability accounts and capital accounts. They really don't have too much to do with cash. They are historical. All it talks about is the value of the company and then you move into the 600 series on page 3. Those are the expense accounts. Those are the accounts where we are spending money. This is where our cash is used, and we'll talk about that in a minute. But from 600 on down through the end of accounts on page 5 is, ends at 93,299, you will see where we are spending our money."

Commission Ramirez: "Did you say page 5?"

Mr. Hiscock: "Page 5, so from middle of page 3, starting on the left hand column, account number 600, it actually says 60,000 but it's actually 600.00. It's just the way it shows. This is where we spend money. The first column is 2006 move to the right is 2007, 2008, 2009, 2010. So this is a five year trend of where money is spent. And you could see that some of these accounts are very, very, very small. Some of they are quite large. An example on page 3 is 623, 500-PO1. It's one of our pumping stations and it shows that we spent 50,000, 56,000, 57,000, 64,000 (dollars). 54,000 in that individual pump station for power. When you look at the information, some of them are very consistent year to year, depending on the temperature in the summer, the amount of water and the price of power. You could look at another one, the 623,500 PO3 and it starts at 30,000 and goes to 39 goes to 64 goes to 71 and drops back to 51. That's our Wilton booster station which only runs during high demand. So, in a very dry year we burn a lot of power. In a wet, rainy year we don't burn nearly as much. And the only reason I'm going through this is, I want to give you an example of how we account for our money. Another example is 641 on the same page – Chemicals - 150,000, 137,000, 185,000, 229,000, 213,000. The trend is up. And the trend is up because the new filtration plant uses significantly more chemicals than the old pump. And you go on and on down through this. Without the book that explains every account number, is a little bit difficult for you all to see exactly where this is coming from."

Commissioner Geake: "Through the chair,"

Mr. Hiscock: "Yes."

Commissioner Geake: "On this one where it says lead 64208 then 700 lead sampling testing. It looks like we didn't do it, one time, one year. 64208."

Mr. Hiscock: "Yes. It's our lead sampling and testing program. It's not a program that you run annually."

Commissioner Geake: "Oh, okay."

Mr. Hiscock: "It's a program where once you meet the standard for your lead program, your lead and copper program, you get certified as being in compliance and you are on a five year testing cycle. If you were out of compliance you have to test more often, but looking at those numbers I would tell you that those are a merely spot samples and check samples because when we do the lead testing program its way higher than that."

Commissioner Geake: "That's what I thought. I was just wondering if that meant something."

Mr. Hiscock: "Another example of one that's expenses are very high is 64301 plant fuel oil. That's the filtration plant. The old plant, we only heated the operating area and were spending 9,000, 8,000, 30, 60, 52. We put the new plant in service. Much more of that plant is heated because of the sensitivity and the chemicals, not chemicals, the amount of small diameter piping. So that's an increased expense. Now on page 4 - some interesting things. 926, Health Insurance, Active Employees. This is for Water Utility only. 2006 we were 396. 2007 we dropped to 366. 2008, 307, then we started back up again 351, 362, variance in the number of employees, variance in premium, but on balance its actually a little more stable than I had anticipated when I saw it. Health Insurance Retired Employees – That one varies a little bit, because retirees under 65 are in the same program as regular employees. And those over 65 are in Medicaid or Medicare. I always get those two confused."

Commissioner Ramirez: "Through the chair question. Once a person now, retired person becomes 65, whatever Medicare doesn't pay, do we cover?"

Mr. Hiscock: "Yes."

Commissioner Ramirez: "So we have subsidized the payment."

Mr. Hiscock: "Yes. Okay. Now, eventually we'll run out but our liability 2 years ago was 9.4 million. We stopped retiree benefits for Health Insurance in the Water Utility in 1991 and in the Electric Utility in 2001."

Commissioner Ramirez: "So are no longer paying the…"

Mr. Hiscock: "Employees hired after those dates do not get continuation of benefits for health coverage."

Commissioner Ramirez: "What is the percentage that we pay for the retirees, for those that are not in Medicare?"

Mr. Hiscock: "100% for those who are covered except for a small number in the Electric Utility because for several years they judged it based on the number of years you worked. So, if you worked 25 (years) it was %100, if you only worked 22 (years) it was 88%. It was 4% a year. Okay, so a few of them vary."

Commissioner Borges-Lopez: "Through the chair."

Mr. Hiscock: "Yes."

Commissioner Borges-Lopez: "Is the retirement medical insurance, is it one for medical, Medicare Supplement or is it coverage just like an active employee?"

Mr. Hiscock: "It's not the same, because it can't be the same."

Commissioner Borges-Lopez: "Right, because they have hospital through Medicare."

Mr. Hiscock: "Right, exactly."

Commissioner Harris: "Then, is it a supplement that would only cover the doctor?'

Mr. Hiscock: "We're paying the supplement, we're paying the supplement and if you look at the top of the next page you'll see Self Insurance Retired Employees, next General Dental Coverage. Then you have Self Insurance Active Employees. Those are our active employees with eye glasses, hearing aids and dental. Okay."

Commissioner Ramirez: "Question. Then the active employees, do we have a co-pay or we don't have, refresh my memory because I forgot it the last time we have approved it?"

Mr. Hiscock: "On dental?"

Commissioner Ramirez: "In general."

Mr. Hiscock: "Each one is different so it's very hard for me. I'm going to have to look into it."

Commissioner Ramirez: "Forget about the dental, just our regular insurance on…"

Mr. Hiscock: "Our regular health insurance."

Commissioner Ramirez: "Yes."

Mr. Hiscock: "We have an HSA where we fund, we have a high deductible plan and we fund the deductible in the HSA bank for each employee and they get to draw out of that HSA bank if they so desire which means all the way up to the deductible they are covered. Now, there are co-pays outside of that and then once you get to above the deductible, then its fully covered. So, yes, there are co-pays. But I can't give you an example."

Commissioner Ramirez: "No, no, I just wanted a simple question. Thank you. That's fine."

Mr. Hiscock: "The health insurance is confusing. So, as much as I keep on complaining about health coverage, it's not the primary culprit that we're going to be talking about shortly. You might see in certain areas that accounts look like they changed dramatically. You'll see them sort of paired up one next to the other, one directly behind the other and it has to do with people shifting departments, from like a department 200 to department 400 and transfer employee because the last, the intermediate number depends on where you work. There is Administration, there's Accounting, there's plant, there's grounds and they each have a different sub-account number."

Commissioner Ramirez: "Similar, but earn different wages. Is that what it's all about?"

Mr. Hiscock" "No, it's about paying different tasks that they perform. An example would be, our grounds department is relatively stable, but we've been downsizing the Maintenance and Construction, so you'll see that area drop. The new plant takes more labor than the old plant so the plant labor account goes up but then the distribution account goes down because sometimes the distribution people work at the plant. So, they have to get paired up. And I don't mean to get into that much detail, because that's the kind of things that we do."

Commissioner Ramirez: "Since you are there, does it make any difference, I mean, have you received a tremendous difference between before installing the meters vs. what we have now?"

Mr. Hiscock: We haven't had them in long enough to tell."

Commissioner Ramirez: "Six months or."

Mr. Hiscock: "Yes, because electric use is very seasonable and we've only got a couple of months. We don't have the MDM in place which is the Meter Data Management System. And the other thing that causes confusion is when we used to read the electric system with meter readers we'd start like, the 5th of the month and it would take like 3 to 4 weeks to read. So everybody's 30 days cycle was different. Well, now because we simply press a button to read, we are slowly moving the system backward in the month so that in another couple of months everybody will be read on the 3rd from the last day of the month. So we can't quite do comparisons because the number of days per billing period is slowly changing. So, we can't just give you that information yet. And it's probably at least a year away before I'll have any idea with respect to that."

Commissioner Burgess: "Excuse me. Can we stick to discussing water as it says on the agenda?"

Mr. Hiscock: "Yes, and the water meter should not be in anyway. And they won't be in for another year and a half. So these are the water accounts. I could certainly answer any questions. I don't think you really need to delve into it other than this kind of data to collect. This is how we make our projection. This is how we make determinations as to where we are. Now, this is the important one. This is the one. It's 2003 through 2010. 2010 was audited. And the budget for 2011 and 2012, we're giving you the projections. We're giving you a few ideas. And these are important that you understand. We built the filtration period right in the middle of this. And that really skews cash balances and it moves things around in a way that until you really get into the detail, it's hard to look at. We did it this way hoping that it would simplify it. Couple of examples – First line is Operating Revenue – In 2003 it was 4.5 million dollars. In 2010 it was 6.58 million dollars. Big difference. Over 50% increase in seven years. We increased rates very specifically to build the plant. You know, we had some big increases. We had two in the, at 20. Recent times we haven't been. We have been doing that cost of living thing every July. We didn't this year because we're looking at the situation. Operating Revenue is the standard revenue for selling water, selling fire protection hydrant rentals. Other revenue is something that varies widely from year to year. Merchandizing and jobbing is the profit we make when we do construction for other people and bill them. Some years we do a lot of it and make good money. Some years we do very, very little. If we're, if our crew is available and not dealing with a lot of problems, we are willing to do this kind of work. If our crew is busy we simply say 'no' go see a private contractor and we will work with your private contractor. So, it's sort of a fill-in thing for us. It keeps our crew busy when we are not busy. Unfortunately, the economy hasn't been really good, but on the other hand, our crew has been available. So, its, and it's a small number for the most part. So, we have a total revenue. That's the cash that comes in every year. Now, Operating Expense – This is where it starts to show

what's caused our lack of cash, so to speak. 4.2 million dollars in 2003, 7.7 in 2010. Now, you wonder why it's gone up. It really is not as bad as it looks. We haven't been spending that much more money and the reason for the issue is that operating expense includes the depreciation. Depreciation is not cash. Depreciation is a balance sheet item. And if you look at the difference between 2009 and 2010 for depreciation, you'll see it jumped from 709,000 to 2.6 million. And the reason for that is filtration plant was fully put into service from an accounting perspective in late 2009 in that fiscal year. So, what you do to get an understanding of the operating expense on a cash basis, you add back in the depreciation, and all of these numbers by the way, come out of the audit. And now if you look at operating expense on a cash basis you'll see that it went from 3.5 million up to 5.0 million in 2010, but obviously its increase. There's no doubt about it. Most of the increase, other than normal inflationary things, wages, health benefits, most of the increase relate directly to the plant. The fuel oil that I pointed out, the energy to run the plant, the amount of labor involved. Because our employees, in the middle 2000's were working on the plant, supporting the contractor, all of their work or, portions of their work, were capitalized. They weren't an operating expense. So, in the middle years, the employees were working on capital projects for part of their time. Once the plant was done we had very little capital budget so all of the employees are now charged to operating expense. It's not that we're spending more on the employees, we are changing them in different areas. The next thing that is an example of why we don't have much cash, if you look at the interest in 2003 it was 147 and it dropped down all the way to 2008 to 176. That's because the New Canaan reservoir debt principal was decreasing so the interest was decreasing. In 2009 we had some interest expense related to the plant and in 2010 that whole year we had interest related to the filtration plant, the new plant, the new 24.75 million dollar bond issues. So our interest has climbed dramatically, to be expected when you borrow money. It happens. The next item that's created an issue obviously, is debt principal. If you look at 2003 through 2009, each year we spent 300,000 dollars on the New Canaan debt. By the way, that will be done in 2012. In 2010, not only did we pay the principal for the year 2010 but we had a one year, 1/20th of the note sinking fund that we had to prepay. Instead of having what's called the coverage ratio, covenant in the debt, we simply were required to pay one year's principal in advance. And that's to protect the state. If we stopped paying they've got time to come after us. And that's obvious, because in budget year 2011 and 2012 you can see that the principal dropped down to about 1.3. The next line – Debt Service Total. Debt Service is interest and principal, went from the 400's for 2003 through 2009 up to 2.6 obviously in 2010 because of the prepayment but now going forward for 2011 and 2012, the budget years 1.8 a year. We haven't closed our books enough. We just finished fiscal year 2011. We haven't closed our books to the point where I can create these numbers. So these are, 'where's our budget numbers'? I do expect them to be a little bit better. We're always under budget but not by a lot. Because we don't have a lot of capital projects that come in under budget in the water utility because we haven't been doing capital projects. We don't have any money. So what do you end up with at the end of this? 'Available cash'. Now, this is available cash on operating basis. This is not capital. This is strictly operating numbers. The filtration plant is not in here. The swings in cash related to the plant are not in here. This is available cash generated essentially by operations after we pay debt and interest and after we transfer to the district. In 2003 through 2006 we were at a little over half a million, very little bit. 2007 and 2008 we raised our rates because we wanted to collect money for the filtration plant. And we did it. 2009 the amount dropped. In 2010 it was significantly negative because again, we paid out that big portion of the debt. But for 2011 and 2012 based on the budgeted numbers, our cash will drop by 579 and as much as 704 in 2012. And I know that's a long winded explanation to tell you where we are, but I told you that we ended 2010 with virtually no cash in the water fund. And we got two solid years of negative cash flow if we don't change rates. And that's clear. And I wanted to explain it to you this way so you can look at the numbers and realize, it really isn't much that can be done other than raise rates. I mean you got

1.8 million dollars in debt service that is non negotiable. Nobody can do anything about it. We signed a note. It's legally due. We have no choice. We need to run the department. We might be able to trim a little bit of operating expense, but certainly I don't believe we can come anywhere near trimming enough to get rid the negatives, because if you look at the 5.6 million operating expense and compare it to the audited years of 5.39 and 5.0. If we were dead level, didn't do anything else, did no capital projects, we would still have to trim 700,000 dollars each year going forward, and that's simply is not going to happen. We can't change our power cost, we can't change our fuel cost. There is only one thing we have the ability to change, is the labor dependent in costs. Five to seven hundred thousand dollars is a huge amount of labor. And that is not practical. That just clearly proves it's not practical. I think you all know that from discussions we've had that our org charts shows 53 positions. In the company now, this is in the company in general, but we're down into the 46 range. We are not replacing people. Attrition has moved people down. The number of bodies charged in the water utility is less. And it's been declining because of the situation. So, we're not looking to try to find other than to be prudent. I really don't think there's any way to deal with this other clearly than the rate increase. There's just simply not other way. And I didn't want to, I didn't want to go into the detail of the rate report which you will see next month without really putting this on the table so you can see the real issues. And the real issue is debt. And it's a big number. Not unanticipated, and there is no doubt about that. The debt's, the debt's the debt. So this is where we are. I can answer questions about it. We can talk about it, but this is the situation we're in."

Commissioner Ramirez: "Through the chair. There is no doubt about it. I personally testify that in both departments, water and electric departments. We are very to the point. And every time that you see those folks, they are working constantly in any shape or form, would definitely myself, couldn't eliminate any of those positions. At the same token, how do you spend with all this expense of broken pipes. For instance, you had one in Shorefront Park, one…"

Mr. Hiscock: "Today."

Commissioner Ramirez: "Today. How do you cover all the expenses? And even though, by the way folks, in the past I can see that you utilize officers to cover the traffic and when it comes to a hazardous matter folks, and it's a very serious matter we have a city growing up, traffic very heavy, and you expose not only the public but as well as our workers to be in some kind of a hazard traffic issues. They have actually covered themselves by directing traffic and they do an excellent job. So my question is how do we cover all the expenses? Are we expecting to show up the different numbers later on that we, or bigger difference at deficit of the number. I mean I…help me out. How are you doing it? Where are you squeezing the money to cover all of it, because obviously…"

Mr. Hiscock: "We've done a few things. We're moving people around more than we used to. An example is – When we get into a storm situation and we put in utility wires down and I know…"

Commissioner Ramirez: "Let's deal with the water. Let's figure how you're covering it."

Mr. Hiscock: "This is why, I'm going to get to that in a minute as to how we move the employees round. We will use the water, the grounds crew, which is generally in the water department's fund. We will use them to clear brush and to work along side of the electric department. We will use those individuals to direct the traffic. Because we are not doing a lot of capital construction that we used to do our maintenance and construction crew occasionally works on electric. We have a tendency to fill in with employees in areas where they can help out, where they are trained or cross

trained and we do cross train them. Because there are thing that we used to do, we are not doing. We used to have a very heavy forestry program on the watershed in Wilton. We spend a lot of money. We used defense. We've cut back on that. Those employees are deployed elsewhere. So, it's a combination of not doing the tasks that we used to do. The other issue is automation in the metering department. The meter reading department we continue to create automation improvements. We have less people reading meters and we used to and we use them in other areas. So we've been cutting, cutting numbers. I mean, its' getting to be a struggle. We used to take half of our… a third of our revenue and the water utilities used to go to capital improvements. Well we're not in that position any more. We are doing no capital improvements. Our crews used to work on capital improvements and there were more individuals in the department. So it's doing less, doing less improvements, deferring maintenance and doing less programs. That's how it's being done. And the other side of the coin is, when we come in with a rate study, and you've seen some of numbers in the past meetings and some of the charts. We're in a world where we compare to other utilities and we need to be in that range. We just can't be the highest. We shouldn't be at the top. And in the district for the water rates we try to keep them in the 35 percentile range so that we're almost in the middle band, the bottom of the middle band. And that's a constraint. So, we're just juggling everything we can."

Commissioner Ramirez: "How do we do vs. all the districts when compared to rates?"

Mr. Hiscock: "A lot of that information you'll see in the report that comes out in August. We've got all the graphs sitting in, and we've completed all, they're there. To give you a preview, the out of district rate for the utility is in the upper band. We're at about the 60 or 70 percentile with only a couple of the investor owned companies in Groton. They're more expensive than us. Inside the district even with the recommended rate increase will still be in the middle band, sort of right in the middle of the pack. How do we compare with the local utilities? First District right now is 10% below us. And they just recently raised their rates very, very significantly. And their staff has indicated to me that they will raise them again significantly, because they are now spending money on improvements which is something they never did. When the report comes in, we will be higher, significantly higher than the First (District) again. So, where do we compare? We're okay for in the district. We are a little high for our out of the district. 75% of our revenue comes from out of the district. Because remember, we serve Rowayton, West Norwalk, Silvermine, Southwest Wilton, portions of East Norwalk. It's big compared to the Second District. The other thing that's hurting us is the economy. Ride around and look at the vacant space. Our revenues, if you take our yield from our increases and multiply them out by the gallons sold, you will see that our increases are not yielding the amount that they would if the economy was flat and level. We're in a position where our sales are declining, so our unit costs are increasing. We're not terribly unusual though compared to everybody else. Everybody is facing that problem. So its simply a long answer Commissioner is a balance…."

Commissioner Ramirez: "No, that's fine, that's fine. I had another one but I'll let the Commissioner Al go ahead pertaining to seniors."

Commissioner Ayme: "I have a question regarding the debt service that we have the, we are making contributions to a resource of a sinking fund included in the amount of payment that we're making, are we not?"

Mr. Hiscock: "No."

Commissioner Ayme: "No?"

Mr. Hiscock: "The only, there is no sinking fund other than the fiscal year 2010. The difference between the 2.7 and the 1.8 which was the one time payment, so right now from 2011 on up it is strictly 1/20th. No, I can't say that because that's inappropriate. The total payment is a levelized payment. In other words we chose, the old bond issue was not levelized. Level principle was obviously a declining interest. We chose because we couldn't absorb that kind of repayment plan. We chose a levelized debt where there is more money going on the interest in the beginning and less on the principle. Like your house mortgage."

Commissioner Ayme: "Right."

Mr. Hiscock: "Almost identical. We took a payment plan just like a house mortgage. Just like a fixed rate house mortgage, where you're paying big interest in the beginning and your principle declines slowly. As we get further out, you know, more of it will be away from the other and it goes like this."

Commissioner Ayme: "What you're saying is that the retirement for the, of a portion of the principle amount was a one time deal?"

Mr. Hiscock: "The reason that 2010 is so high, it was a one time deal."

Commissioner Ayme" "One time deal."

Mr. Hiscock: "Essentially it was a prepayment of a reserve."

Commissioner Ayme: "Was that a something that we didn't comply with, with the state?"

Mr. Hiscock: "It's the way the state does their safe drinking water loans. It's the same way the state does their waste water loans. It's just the process that the treasurer's office uses. We have no choice."

Commissioner Ayme: "Because normally, the reason I'm asking that is because the way I've known sinking funds to work on an equal installments of retirement over the period of the loan. I've never seen it this way. This is the first time I've seen this."

Mr. Hiscock: "Yes, It's a little bit different. It's a little bit different and it's the function of the State Treasurer's Office and the way they run their program."

Commissioner Ayme: "Okay. The only question I have on this last question is that, I know that in the past we have talked about replacing, I have asked, let's put it that way, questions about replacing the pipes. And I need your opinion on this thing here. I know that there is a water waste, to a percentage of water that is wasted and it creates erosion. Now, the erosion, the underground erosion by the water seepage, let's put it that way, isn't that making matters worse in the sense that the erosion is creating the pipes to become worse and worse and worse?"

Mr. Hiscock: "Leaks generally will increase in rate and volume over time through, essentially through erosion and cavitation and micro oxidation really. Combination of all of those things, the velocity in the leak is fast and it wears away through erosion in the pipe. It makes the whole bigger

and bigger. We do a leak detection survey every three years. We hire an outside firm. The outside firm continually goes through the entire distribution system and listens for leaks. It's done with fancy electronics today. And they go through the entire system. They give us location of leaks and then we go during the year and based on size and location we repair them. That's an aggressive program. It's aggressive because our un-accounted for water is very high. Our un-accounted for water is very high because we're an old inner city urban area and most old inner city urban areas have very high leakage. Pipes are old. The other issue is they are so much in the ground. There are so many other conduits. There's so many other places for the water to go, that it doesn't just surface like it does in a rural area. So, urban areas generally are very highly [inaudible] and they very rarely come to the surface unless they are catastrophic. And we have a lot of those."

Commissioner Ayme: "What's the most..?"

Mr. Hiscock: "The smaller leaks usually go into the ground and into the sub-surface…"

Commissioner Ayme: "What's the most often cause of a broken pipe like we had on West Avenue not long ago? There was a broken main there."

Mr. Hiscock: "In the winter time as the water temperature cools the metal pipes contract and they can't contract because they're in the ground, so from a structural perspective they create a tension inside of the pipe. It puts the pipe in tension. So, we get what is called circumferential leaks, where the pipe cracks all the way around and pulls apart this way. Those are temperature related. Others are joint related where you get a small leak and in the joint, the old joint materials are lead, leadite, oakum. There are many different kinds of joints and they slowly get worse and worse and worse. So, we have joint leaks. That's one type of a leak. Another type of a leak is a corrosion leak where the wall thickness due to external corrosion decreases and gets down to the busting strength. Sort of like a balloon where you thin out one side. Well that's where it breaks. So that's a corrosion failure. And the other failure we get is differential settlement where another utility might have crossed under us and eventually the soil in that area settles and it doesn't settle in the undisturbed area, so you get a situation where it does this and you get a crack on the top that's big and virtually nothing on the bottom, or the other way around if it goes this way. So those are the mechanisms that create leaks, differential settlement, corrosion, joints and temperature."

Commissioner Ayme: "Is that, would you say that the age of the pipes is a major contribution to that?"

Mr. Hiscock: "It's a significant contribution, but not generally the determinant. Older pipes sometimes fare way better than others. It depends on the facility where the pipe was cast. It depends on the thickness that the utility chose when it ordered the pipe. It depends a lot on, well there is galvanic corrosion too where straight currents underground happens, rectifiers and gas mains where they put rectifiers on so the gas mains don't have a tendency to corrode. Unfortunately, corrodes the adjacent water mains and water services systems. I forgot about that type of a situation. Age is a determinant but not the primary one. It's the material itself. Now remember we also have asbestos cement pipe. And that is very susceptible to bad soil and that gets external corrosion."

Commissioner Ramirez: "Asbestos?"

Mr. Hiscock: "Yes, asbestos cement. We have 40, only about 40 miles of it left. At one point we had 42 or 43 miles of it. We started using that in 1939. We stopped using it in 1973 I believe. It was cheaper. I can only tell you it was cheaper. At the time nobody worried about asbestos. We used it in fire protection in buildings. We used to spray it all over the place. We used it all over the place. Asbestos didn't become an issue until the last 60's early 70's. So, it was not a bad material to use from a health perspective."

Commissioner Ramirez: "Well, because the studies didn't exist though, okay."

Mr. Hiscock: "Right. Now, our water is not corrosive. We do a tremendous amount of work to prevent it from being corrosive. It has a fairly high PH and the failures that we have on asbestos cement pipes are external corrosion, only our external failure. If you look at asbestos cement pipes in very bad soil conditions, you can literally take your finger nails and break the asbestos off the pipe and it comes out like fibers. Our crew has a whole series of safety precautions. The pipe is wetted. They wear tyvek suits. The material is disposed of properly. But we have no internal corrosion. If you look at the inside of our asbestos cement pipes there is not a mark on them. We do fiber analysis according to the EPA rules."

Commissioner Ramirez: "We do not expose anyone to any unhealthy danger?

Mr. Hiscock: "No, no, we do not have a health issue with respect to asbestos cement pipes. We have a failure issue and there's 40 miles of it. In good soil it lasts just as well as metal pipes. In bad soil we've replaced stuff that's only 20 and 30 years old. We've replace all of North Taylor Avenue in the 80's. It simply failed. We've replaced Hunters Lane, catastrophic failures on Hunters Lane. We went in and took it out of budget one year. Just took cash and did it, because we had 7 or 8 breaks in a matter of 3 months, total catastrophic failure. All soil conditions. Your issue is one of deferred maintenance and eventually it's going to be an issue."

Commissioner Ayme: "Right. Okay. The substance of what I'm driving at with my question is that, I know that we have done some replacements in the past."

Mr. Hiscock: "Yes."

Commissioner Ayme: "Perhaps not a lot but we have done some. And I gather that we have no plans to on a continuing base to keep replacing the pipes."

Mr. Hiscock: "In the near future, no. We do not have the funds. Even if we raise the rates we would not have sufficient funds to have good replacement program. We built a plant in the 70's and we were in the same exact situation. We had no cash. Two things happened. We had phenomenal CPI increases, cost of living changes in 1978, 1979 and 1980. Do you remember they were in the 7, 8, 9, 10, 12% range? Debt was constant fixed debt. Everything went up, gave us a margin and a cushion and the other thing, we only had a 15 year debt on the plant, so in 1985 the debt was paid off. And all of a sudden we had a significant amount of cash. This is a twenty year debt. So unless there's a significant inflation, it's going to be a while before we are able to sit to fund a capital program with reasonable replacements. We're not the only ones deferring maintenance. Everyone is. It's a common industry problem."

Commissioner Ayme: "So we are working on emergency basis basically."

Mr. Hiscock: "We are preparing with breaks and if there is a serious catastrophic failure of any system we will replace it. And that's all we're doing."

Commissioner Ayme: "Okay, Thank you."

Commissioner Burgess: "Any other questions? And there's no action at all."

Mr. Hiscock: "No action whatsoever. If things go well, we will have a fairly lengthy report before the August meeting to look at and there will be a rate increase recommendation in that report. And as you can see it's not going to be insignificant."

Commissioner Ramirez: "That's why I want to [inaudible] through the chair. I know it might sound a little strange, but do we have, what I'm leading to is, seniors that have fixed income and own properties and going to be exposed to this new rates, do we have any special way to kind of take care of seniors, instead of being a sequel as everybody else. You understand what I'm saying? You realize that these poor people may be 300 dollar, [inaudible] a thousand dollars a month, vs. those that make 20 or 50 whatever the case may be."

Mr. Hiscock: "We don't. The water utility is a little different that the electric utility because , one - we only bill property owners of record. So you have to own the structure."

Commissioner Ramirez: "I was referring to the senior that own property, that are on a fixed income."

Mr. Hiscock: "Right, there is no program for the seniors that own property and the water bill, even after our increase will be very insignificant in relationship to property taxes. For the average home, we're probably 1/10th, the annual water bill is probably 1/10th of the annual tax bill or less…"

Commissioner Ramirez: "Help me out…"

Mr. Hiscock: "So I know that doesn't…"

Commissioner Ramirez: "How much are we thinking about an increase of an average senior or anybody for that matter?"

Mr. Hiscock: "20%."

Commissioner Ramirez: "Which means in dollars, about an average?"

Mr. Hiscock: "Well, if we're looking at a revenue of 6.5, 20% is 1.3 million dollars. To the average person, there is no average person in the water business unfortunately. Everybody, because its so inexpensive, the usage is very very varied that will be in the report, but we are talking about…"

Commissioner Ramirez: "We're not talking about commercial, we're talking about residential."

Mr. Hiscock: "We're talking about residential customers."

Commissioner Ramirez: "Would it be fair to say that $50, $25 per month…"

Mr. Hiscock: "No, nowhere near that,"

Commissioner Mann: "Nowhere near."

Mr. Hiscock: "No, no, no, no. Nowhere near that."

Commissioner Ramirez: "So are we talking about…"

Mr. Hiscock: "I mean we're talking $10 a month or less. We're not really, yes, we're talking the cost of two beers a month. I'm sorry. What were you…?"

Commissioner Ramirez: "I don't drink no beers, so I don't know what that might be."

Commissioner Harris: "A pack of cigarettes."

Commission Ayme: "We put a lien on the property."

Commissioner Ramirez: "Yes, but we don't want to do that though. We're trying to avoid to, we're trying to help. I'm only referring to senior that what I'm, helping those in need."

Commissioner Ayme: "Yes, understand."

Commissioner Ramirez: "Helping those in need."

Mr. Hiscock" "Yes, we're not talking those kind of…"

Commissioner Ramirez: "I thought you're talking 25, 50 dollars or something like that."

Mr. Hiscock: "No."

Commissioner Ayme: "Alright. We're finished?"

Commissioner Ramirez: "Would you like to, before you adjourn the meeting, simply question."

Mr. Hiscock: "Yes."

Commissioner Ramirez: "Remember we asked for the truck, I know this is not on the agenda, but since we are going to close, what happened to the truck that we were supposed to be buying for the electrical department with all these beautiful things that they give you the electrical department needed."

Commissioner Ayme: "Could we adjourn and we get into that. It's off the agenda."

Commissioner Ramirez: "Your want to do this?"

Commissioner Ayme: "I'm mean that's up to you."

Commissioner Burgess: "No, no, I think this, this agenda has to deal with water."

Commissioner Ramirez: "It's a simple question pertaining to…"

Commissioner Burgess: "You'll have a shot, you'll have a shot later in the electric."

Mr. Hiscock: "I will tell you off the record."

Commissioner Ayme: "That's what I meant off the record. Alright, move to adjourn."

Commissioner Geake: "Second."

Commissioner Burgess: "All in favor?"

Commissioner Geake: "Aye."

Adjournment

The meeting adjourned at 8:10 p.m.

Attest:

Gwendolyn Gonzalez
Asst. District Clerk

Transcribed by: Connie Farrugia
Reviewed by: Gwendolyn Gonzalez