

The Metropolitan District Commission-- Board of Finance Budget Workshop

September 19, 2019



Agenda

- 2020 Budget Schedule
- Overview of MDC Budget Process
- Adopted 2019 Revenue and Expense Budgets
- 2019 General Fund Projected Year End
- 2019 Water Utility Fund Projected Year End
- 2020 Big Picture Issues
- 2020 Budget Drivers
- CWP Household Bills Scenario 1 vs. Scenario 2, MDC Average
- Clean Water Project Charge Analysis
- Funding Plan for OPEB
- Scenarios Ad Valorem and the Customer Service Sewer Charge
- Additional Slides Regarding Cost Shift to Ad Valorem from CWP
- Comments/ Questions



2020 Budget Schedule (Draft)

- September 10
(and 9/26, 10/10 as needed) Town Manager/ Town Finance Director High Level Budget Discussions
- September 19 BOF Budget Workshop
- October TBD Second BOF Workshop
- November 6 District Board refers Budget to BOF
- November 18 BOF Meeting for Budget Review, possible amendments in order to move to District Board for consideration
- November TBD Water Bureau Public Hearing re Water Supply Ordinance
- December 2 MDC Government Committee to consider/ approval possible amendment of Water Supply Ordinance and refer to District Board
- December 2 MDC District Board adopts Budget
- December 2019 Levy Tax/ Publish Ordinance



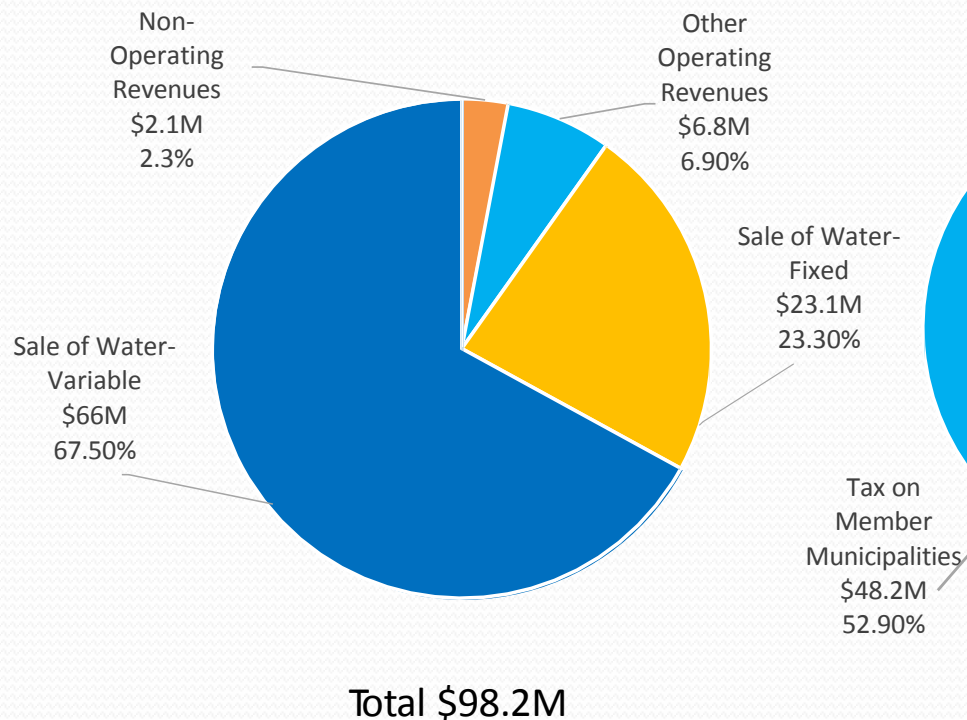
Overview of MDC Budget Process

1. Assemble Revenue & Expense Data
2. Compile Expenditure Requests by Cost Center and by Account
3. Compile Miscellaneous Revenues by Fund
4. Identify Shortfalls by Fund
5. Review Current Year Projections
6. Review Current Fund Balances
7. Analyze Existing Rate Structures
8. Prepare Options To Balance Budget For Management Review

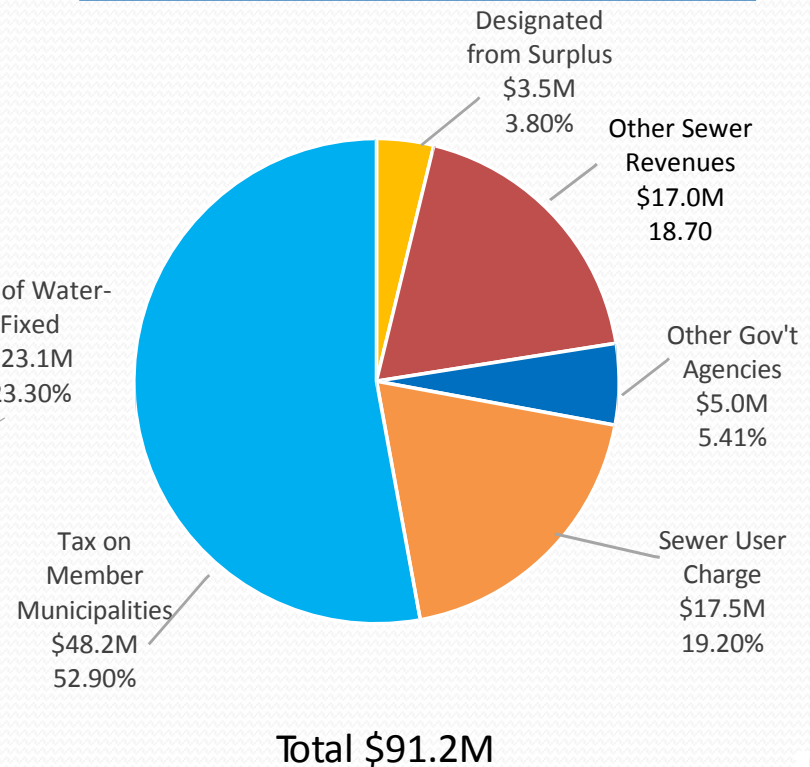


Adopted 2019 Revenue Budget

2019 Budgeted Water Revenues

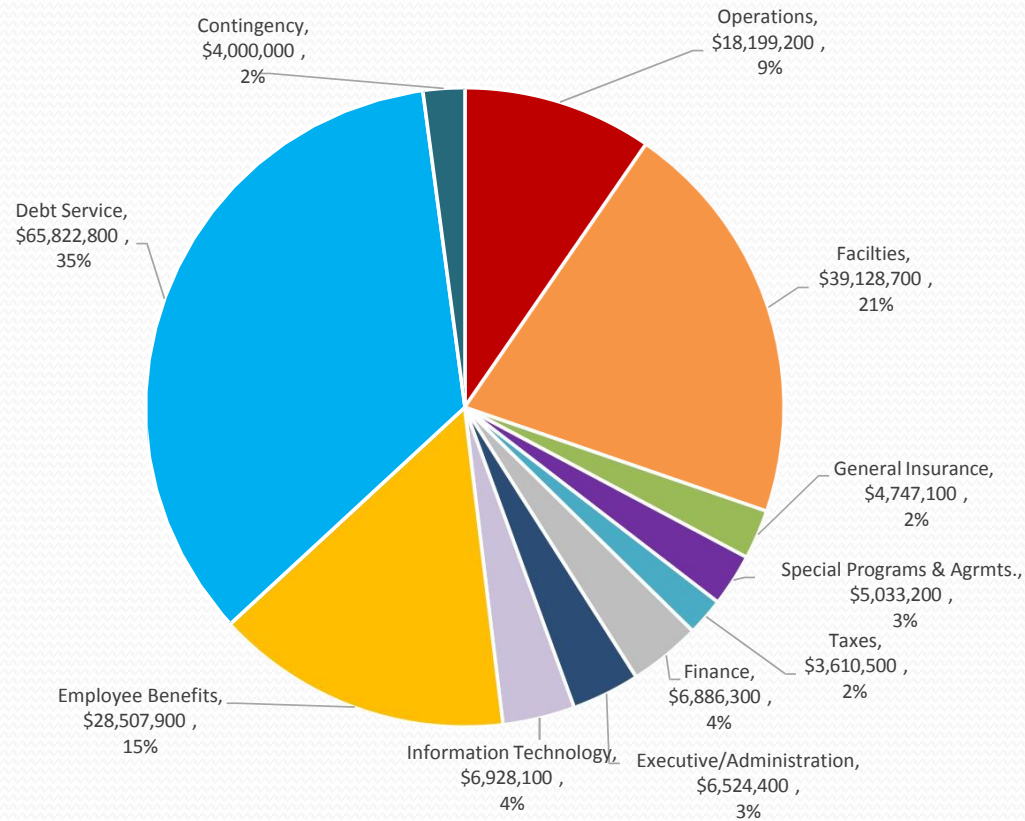


2019 Budgeted Sewer Revenues



Adopted 2019 Expenditure Budget

FY Adopted 2019 Expenditure Budget



2019 General Fund Projections

M\$	2019	2019	
<u>General Fund Operations</u>	<u>Adopted</u>	<u>Projected</u>	<u>Variance</u>
<u>Revenues</u>			
Tax on Member Municipalities	\$ 48.15	\$ 48.15	\$ -
Revenue for Other Gov't Agencies	4.96	5.75	0.79
Other Sewer Revenues	17.11	14.61	(2.50)
Sewer User Charge Revenues	17.54	18.20	0.66
Surplus Designated from Prior Yr.	3.50	-	(3.50)
Total Revenue	\$ 91.26	\$ 86.71	\$ (4.55)
 Total Operating Expenses	 \$ 91.26	 \$ 87.26	 \$ (4.00)
 Year End Fund Projection from Operations - Surplus			 \$ 0.55

Projected revenues are lower due to Groundwater Remediation and not using Surplus; offset by higher than budgeted sludge and septage. Projected favorable expenditures by not using Contingency.

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2019 Water Utility Projections

M\$	2019	2019	
<u>Water Utility Fund Operations</u>	<u>Adopted</u>	<u>Projected</u>	<u>Variance</u>
<u>Revenues</u>			
Sale of Water	\$ 89.12	\$ 85.36	\$ (3.76)
Other Operating Revenues	6.82	6.46	(0.36)
Non-Operating Revenues	<u>2.26</u>	<u>1.25</u>	<u>(1.01)</u>
Total Revenue	\$ 98.20	\$ 93.07	\$ (5.13)
 Total Operating Expenses	 \$ 98.20	 \$ 97.90	 \$ <u>(0.30)</u>
 Year End Fund Projection from Operations - Deficit			 \$ <u><u>(4.83)</u></u>

Unfavorable revenues are due to lower consumption levels than budgeted. Projected expenses in 2019 are currently favorable to budget due to delay in filling positions, offset by higher than budget overtime expenses due to water main breaks during the winter.

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2020 Big Picture Issues

- DEEP approval of Long-Term Control Plan (LTCP)
 - Incremental capital cost as a result of a migration to CIP from CWP
 - \$450 million CWP and on-going CMOM expenses
 - \$1.25 million additional interest expense in 2020
- Proactive maintenance infrastructure
- OPEB Trust funding options and long-term implications
- Continue to “do more with less”
- Deployment of solutions/ strategic investments
 - Healthier Workforce
- Resolve impasse with DEEP re Hartford Landfill
- Increase water main replacement from 1-2 miles per year to 8-10 miles (capital spend will go from \$6 million to \$26 million per year)
- Phase 2 of the Raftelis Study
- Funding for litigation settlements
- Riverfront Transition Plan
- Master Plan for Water Infrastructure (\$750 million)



2020 Budget Drivers

Revenue Changes

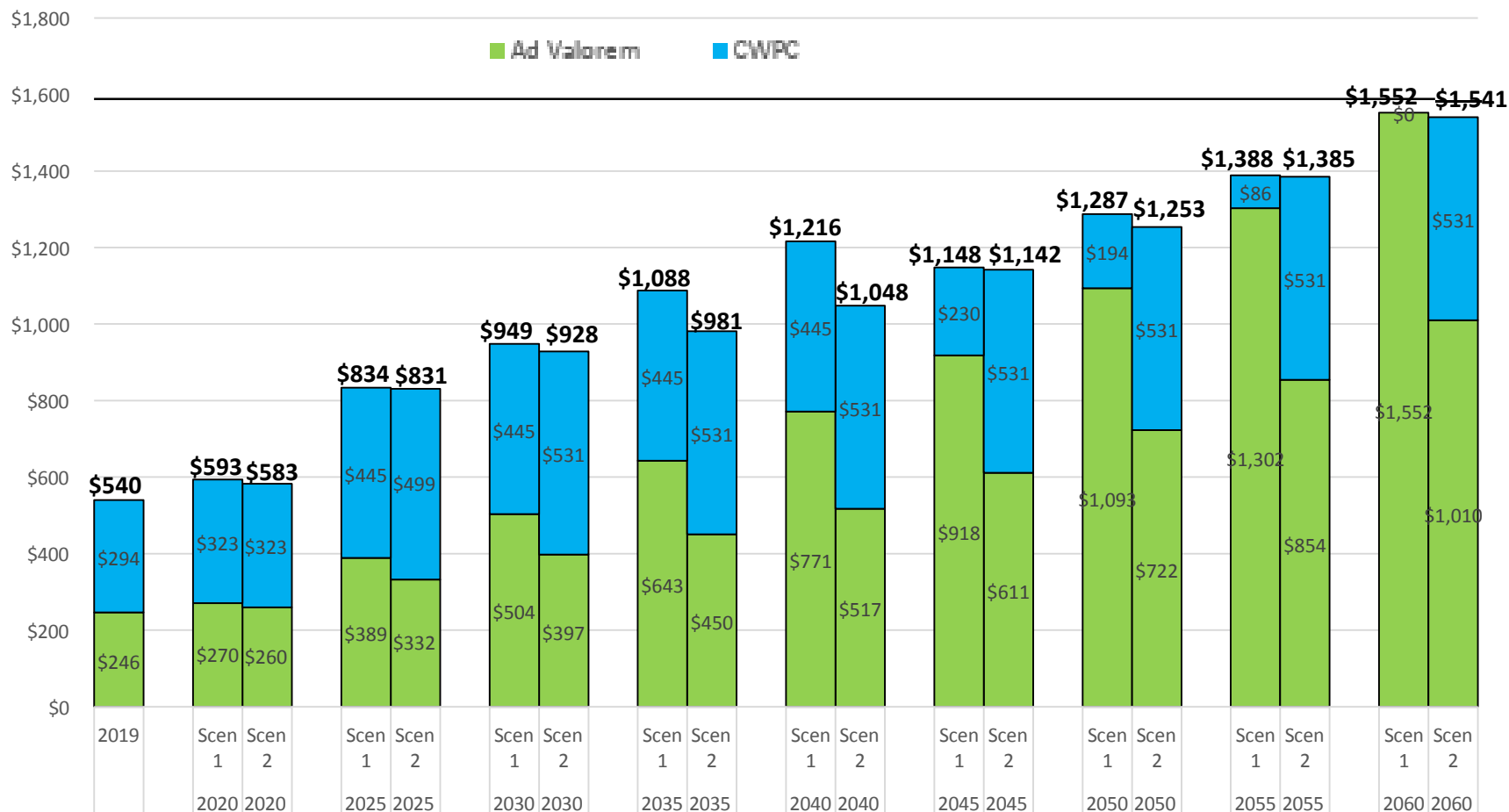
- Consumption— 3.6% decrease expected
- 2019 refunding bond savings \$1.4 million (5x-FY2020-24)
- Sludge revenue from outside the district expected to continue, although new EPA regulations could create new challenges
- Groundwater remediation revenues from Pratt & Whitney (\$3.6 million/yr) should provide some additional stability
- Decreased reliance expected on CWP Overhead Charge \$8mm to \$7.2mm based upon reduction in CWF bonds outstanding
- As yet undetermined rate adjustments necessary to mitigate Ad Valorem increase
- CT Airport Authority \$380K/ year for incremental groundwater remediation

Expense Changes

- Debt Service-- \$70 million (vs. \$66 million in 2019)
- Labor Costs & Employee Benefits
 - Anthem Costs – cost of 2 new programs including “Livongo” which support efforts to promote employee wellness, \$55K in 2020
 - 2020 headcount reduction --481 down from 485
 - COLA: 3% increase for all employees
 - Milliman Pension administration expense \$71K/yr (plus \$24K one time cost)
 - Retiree one time payment buyout, \$271K (1 time cost)
- \$1.2 million/ year incremental SAP application management support costs
- Long-term plan for OPEB— Impact of GASB 75/ possible phase in to full funding of ADEC (ARC) with other commitments such as:
 - Retiree Insurance buyout expense (OPEB expense \$2 million)
- General Insurance expected to increase by \$1 million, being driven by additional capital asset acquisition
- Unknown impact of costs associated DEEP nitrogen credits
- In-sourcing Payroll expected to provide \$135,000 expense savings



CWP Household Bills Scenario 1 vs. Scenario 2, MDC Average

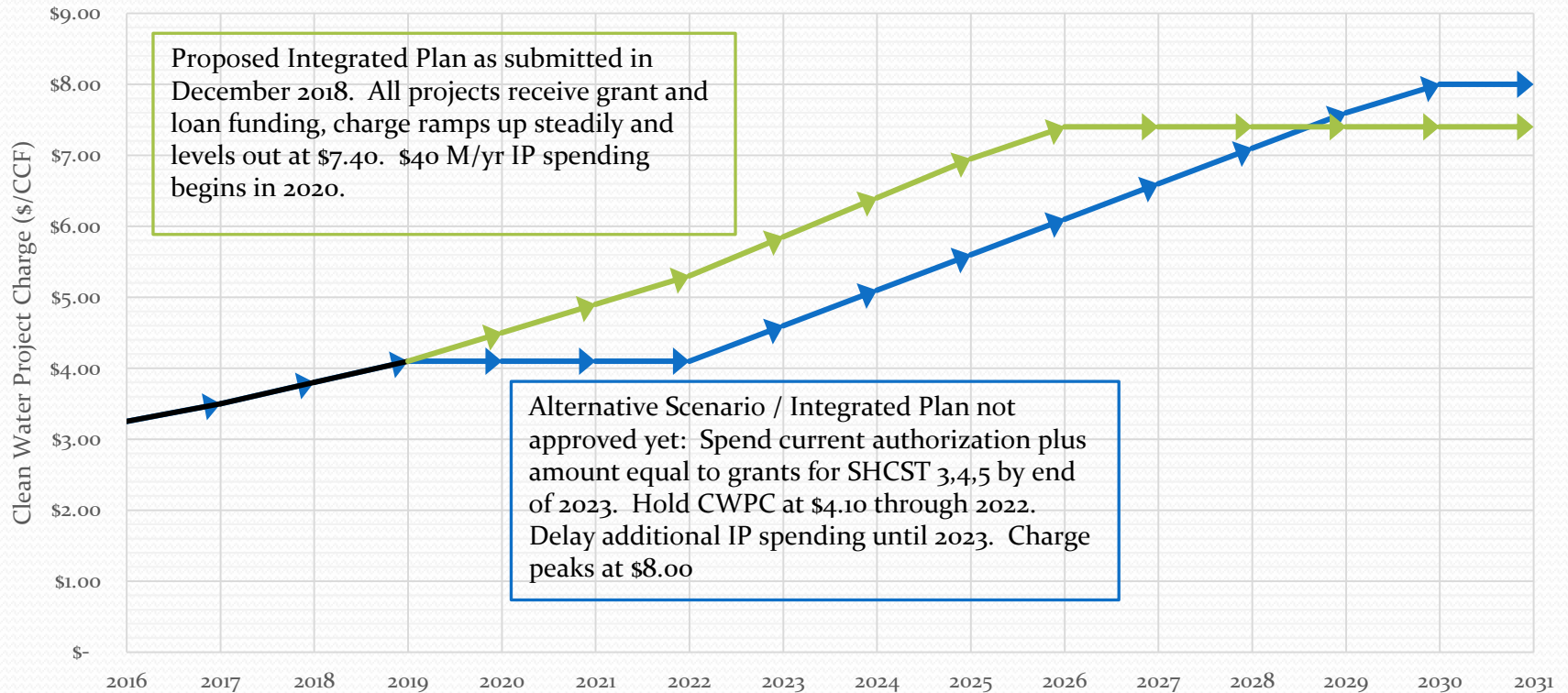


Similar household bills, but different programs

- Scenario 1 builds tunnel sooner and sewers continue to fail/repared on Ad Valorem
- Scenario 2 delays tunnel, focuses on Integrated Plan projects that address sewer system while reducing CSOs, and moves burden from Ad Valorem to Clean Water Project Charge (CWPC)

Clean Water Project Charge Analysis

Comparison of CWPC charge ramp up



Funding Plan for OPEB

The Metropolitan District Other Post-Employment Benefits Program Long-Range Forecast Based on January 1, 2018 Valuation

Valuation Date For Fiscal Year	1/1/2018 2018	1/1/2019 2019	1/1/2020 2020	1/1/2021 2021	1/1/2022 2022	1/1/2023 2023	1/1/2024 2024	1/1/2025 2025	1/1/2026 2026	1/1/2027 2027
Discount Rate	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
Accrued Liability	\$189,803,000	\$198,100,000	\$202,914,000	\$209,973,000	\$217,188,000	\$224,541,000	\$232,058,000	\$239,762,000	\$247,715,000	\$255,750,000
Market Value of Assets	0	0	0	751,000	2,124,000	4,216,000	7,140,000	11,018,000	16,012,000	22,101,000
Unfunded Accrued Liability	189,803,000	198,100,000	202,914,000	209,222,000	215,064,000	220,325,000	224,918,000	228,744,000	231,703,000	233,649,000
Funded Ratio	0%	0%	0%	0%	1%	2%	3%	5%	6%	9%
Amortization Period	30	30	30	29	28	27	26	25	24	23
Amortization Growth Rate	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Past Service Cost	9,550,000	9,877,000	10,220,000	10,759,000	11,304,000	11,851,000	12,396,000	12,936,000	13,466,000	13,978,000
Total Normal Cost	3,194,000	3,306,000	3,422,000	3,542,000	3,666,000	3,794,000	3,927,000	4,064,000	4,206,000	4,353,000
Employee Contributions	225,000	233,000	241,000	249,000	258,000	267,000	276,000	286,000	296,000	306,000
Expected Expenses	0	0	0	0	0	0	0	0	0	0
Net Normal Cost	2,969,000	3,073,000	3,181,000	3,293,000	3,408,000	3,527,000	3,651,000	3,778,000	3,910,000	4,047,000
Interest Reflecting Mid-Year Payment	416,000	430,000	445,000	467,000	488,000	511,000	533,000	555,000	577,000	598,000
Actuarially Determined Contribution	12,935,000	13,380,000	13,846,000	14,519,000	15,200,000	15,889,000	16,580,000	17,269,000	17,953,000	18,623,000
Pay-As-You-Go Retiree Costs	9,399,000	9,632,000	9,960,000	10,394,000	10,860,000	11,314,000	11,762,000	12,165,000	12,752,000	13,333,000
Net Budget Impact [full prefunding]	3,536,000	3,748,000	3,886,000	4,125,000	4,340,000	4,575,000	4,818,000	5,104,000	5,201,000	5,290,000
Full Prefunding Phase-in	0%	0%	12.5%	25.0%	37.5%	50.0%	62.5%	75.0%	87.5%	100.0%
Actual MDC Contribution	0	0	486,000	1,031,000	1,628,000	2,288,000	3,011,000	3,828,000	4,551,000	5,290,000

This forecast is based on the results of the January 1, 2018 actuarial valuation and assumes that the Metropolitan District will pay the indicated contribution each year in the middle of the year, the return on assets will equal the discount rate each year, and there are no changes in the actuarial methods or assumptions or in the plan provisions. Actual results at each point in time will yield different values, reflecting the actual experience of the plan membership and assets.

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Retirement Plan for Employees of The Metropolitan District

Proposed OPEB Plan Changes - Impact on Active Liability and Normal Cost

In order to illustrate the long-range cost impact of changing OPEB benefits for future employees, we have illustrated the impact the proposed plan changes would have had on the most recent valuation results had those changes applied to all current active members.

	Baseline No Changes	Proposal (a)	Proposal (b)	Proposal (c)	Proposal (d)	Proposal (e)	(a) through (e) Combined	Proposal (g)	Proposal (h)
Accrued Liability for Active Employees	\$83,675,038	\$76,836,000	\$71,890,000	\$45,656,000	\$43,900,000	\$61,436,000	\$24,749,000	\$39,397,000	\$37,640,000
Total Normal Cost	5,631,038	5,174,000	4,809,000	3,091,000	2,983,000	4,278,000	1,746,000	2,650,000	2,542,000

Baseline	Same as 1/1/2014 valuation
Proposal (a)	Change the retiree contribution from a fixed dollar amount at retirement to a fixed percentage of each year's premium
Proposal (b)	Eliminate the Medicare Part B reimbursement
Proposal (c)	Spouses and dependents pay 100% of the premium; assumes that 25% of retirees will elect spouse / dependent coverage
Proposal (d)	Spouses and dependents are not permitted to remain on MDC benefits
Proposal (e)	Eliminate all pre-65 benefits
Combined	Combination of proposals (a) through (e)
Proposal (g)	Combination of proposals (b) & (c)
Proposal (h)	Combination of proposals (b) & (d)

Breakdown of Baseline Accrued Liability	Retirees		Spouses / Dependents		Total
	Pre-65	Post-65	Pre-65	Post-65	
Medical benefits	\$10,477,900	\$29,023,165	\$12,995,414	\$23,465,809	\$75,962,288
Dental benefits	225,535	950,993	419,908	1,153,312	2,749,748
Medicare Part B	0	6,259,316	0	5,525,467	11,784,783
Life Insurance	15,311	278,740	0	0	294,051
Retiree cost share for medical benefits	(713,568)	(2,617,686)	(961,061)	(2,158,564)	(6,450,879)
Retiree cost share for dental benefits	0	0	(220,167)	(444,786)	(664,953)
Net District liability	10,005,178	33,894,528	12,234,094	27,541,238	83,675,038

This analysis is based on the results of the January 1, 2014 actuarial valuation and assumes that the plan changes have always been in effect for active members.

The actual cost of any plan changes will depend on the final form of the plan changes, the effective date, the eligible members at that time, and the actuarial methods and assumptions then in use. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. To the extent future experience deviates from those assumptions, the results of this analysis could vary from the results presented here. We have not explored any legal issues with respect to the proposed plan changes. We are not attorneys and cannot give legal advice on such issues. We suggest that you review any possible plan changes with counsel.

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Scenarios Ad Valorem and Customer Service Sewer Charge

Billed Water Consumption					
17.7M CCFs - 3.6% lower than 2019 adopted of 18.4M CCFs					
Customer Service Charge - \$6					
Ad Valorem - 19.0%					
	2017 Actual	2018 Actual	2019 Adopted	2020 Proposed	Increase
			\$3.00		\$0.00
REVENUES \$6 per month CSC Sewer Charge					
Tax on Member Municipalities	\$41,670,400	\$45,004,000	\$48,153,100	\$57,302,200	\$9,149,100 19.0%
Customer Service Charge	\$0	\$3,320,800	\$6,641,600 \$6.00	\$6,641,600	\$0 \$0.00
REVENUES \$9 per month CSC Sewer Charge					
Tax on Member Municipalities	\$41,670,400	\$45,004,000	\$48,153,100	\$54,413,000	\$6,259,900 13.0%
Customer Service Charge	\$0	\$3,320,800	\$6,641,600 \$9.00	\$9,962,400	\$3,320,800 \$3.00
REVENUES \$12 per month CSC Sewer Charge					
Tax on Member Municipalities	\$41,670,400	\$45,004,000	\$48,153,100	\$51,162,700	\$3,009,600 6.3%
Customer Service Charge	\$0	\$3,320,800	\$6,641,600 \$12.00	\$12,729,800	\$6,088,200 \$6.00
Assumptions					
2020 Proposed Budget V12 Revenues, Expenses with SUC @ \$5.15					

V12 Proposed Budget



MDC's Capacity Maintenance Operations Management (CMOM) Program

- Includes Following:
 - CCTV Inspection
 - Sewer Cleaning (Large Diameter & Small Diameter)
 - Manhole Inspections
- Approximately 92% of sanitary/combined system CCTV inspected since 2006. Remaining 8% is within off-road areas
- Identified approximately \$450M in repairs
 - 2017 Emergency Repairs = \$3.5M
 - 2018 Emergency Repairs = \$4M
 - 2019 Emergency Repairs = \$6M (estimated)
 - 2020 Emergency Repairs = \$6M (budgeted)



Sewer Collection System Renewal = I/I Reduction

		Sewer Rehabilitation (%)			Sewer Age (years)		
Town	Miles	Completed	Recommended	Total	Prior to CWP (2005)	If Infrastructure Ignored (2038)	After IP (2038)
Bloomfield	118	6%	35%	41%	34 yrs	67 yrs	45 yrs
East Hartford	168	3%	23%	26%	45 yrs	78 yrs	58 yrs
Hartford	217	5%	67%	72%	74 yrs	107 yrs	35 yrs
Newington	128	27%	14%	41%	38 yrs	71 yrs	50 yrs
Rocky Hill	90	7%	10%	17%	30 yrs	61 yrs	54 yrs
West Hartford	223	36%	43%	79%	53 yrs	84 yrs	35 yrs
Wethersfield	122	32%	22%	54%	45 yrs	76 yrs	43 yrs
Windsor	152	18%	12%	30%	36 yrs	67 yrs	49 yrs
Total	1,218	17%	33%	50%	50 yrs	81 yrs	45 yrs

CIP Shift - Ad Valorem to CWPC – Integrated Planning (IP) Proposal

- Consent Decree requires CCTV of all sewers
 - To date 92% has been completed
 - Remaining 8% is primarily cross country sewers with access issues
 - Completed inspection has identified about \$450 million in repairs, which if done would reduce I/I in the collection system (dual benefit)
- Previously most of these projects were funded by Ad Valorem
- Current MDC goal is to move many CIP projects over to CWPC that were identified by Consent Decree mandate and have dual benefit to renew system and reduce system I/I
- IP Not Yet Approved by DEEP



Planned CMOM – IP Projects (Without IP)

- 2020 CIP:
 - Large Diameter Sewer Rehab Program – \$14.6M
 - Large Diameter Repair & Replacement Design – \$685,000
- Future Rehab CIP:
 - 2021 – \$22.8M
 - 2022 – \$11.8M
 - 2023 – \$13M
 - 2024 – \$17.1M
 - 2025 – \$21M
 - 2026 – \$12M
 - 2027 – \$19.8M
 - 2028 – \$6.9M
- 2020-2028 Avg. = \$15.52M
 - Could increase without “\$20M Rule” and/or Referendum 3
 - Does not include emergency repairs
 - 2019 Emergency Repairs = \$6M (estimated)
 - 2020 Emergency Repairs = \$6M (budgeted)
- IP Approval impacts CWF Funding (grant/loan %)

Comments/ Questions

