

SECOND TAXING DISTRICT COMMISSIONERS
Regular Meeting
November 9, 2010

Present: Al Ayme Vice Chairperson
Maria Borges-Lopez
Mary Geake
Sherelle Harris
Mary Mann

Also Present: John M. Hiscock General Manager
Gwendolyn Gonzalez Asst. District Clerk
Kevin Barber

Absent: Mary E. Burgess Chairperson
Cesar Ramirez

Public Present: Michael Mushak

Call To Order

Vice Chairperson Al Ayme called the Regular Meeting of the Second Taxing District Commissioners to order at 7:05 p.m. on Tuesday, November 9, 2010. The meeting was held at South Norwalk Electric and Water, One State Street, South Norwalk, Connecticut.

Acceptance of the Minutes

Commissioner Ayme: "The Second Taxing District Commission for Tuesday, November 9, 2010 is now called to order at 7:05 pm. Before we get into the business on hand I would like to say that Chairperson Burgess won't be here tonight. As we all know, her daughter passed away last October 25th and today she received the photographs of the accident from the Police Department and she is going through a very difficult time. Her daughter Tamara Wagner, as you know passed away October 25th, 2010 just a few days ago. They got back from the funeral [inaudible]. Like I said she's going through a very difficult time. If you will allow me at this time, I would like to call for a moment of silence in memory of Tamara Wagner. Thank you. We need a, for time on the agenda we need a motion for the approval of the minutes of October 19, 2010."

Commissioner Geake: "I make a motion."

Commissioner Ayme: "I need a second. We need a second."

Commissioner Borges-Lopez: "I wasn't here, so."

Commissioner Harris: "I will have to abstain."

Commissioner Mann: "I'll second."

Commissioner Ayme: "Okay. All those in favor?"

Commissioner Geake: "Aye."

Commissioner Ayme: "Opposed?"

No opposed

Commissioner Ayme: "Abstentions?"

Commissioners Borges-Lopez and Harris: [Abstained]

Commissioner Borges Lopez: "Two."

Commissioner Ayme: [Inaudible]

Commissioner: [Inaudible]

Commissioner Ayme: "Okay. Next item on the agenda is the Consent Agenda. It requires a resolution which is self explanatory. If anyone requires any brief explanation on this resolution I will turn the item over to Mr. Hiscock, but if not, I will call for a motion to approve the Consent Agenda and we need the resolution right into the record."

Commissioner Harris: "I motion to approve the Consent Agenda."

CONSENT AGENDA:

Commissioner Ayme: "Would you read the resolution please."

Commissioner Harris: "I have to read it?"

Mr. Hiscock: "Just before tab 4. That's the best way to get at it."

Commissioner Harris: "I just have to take out my glasses. I'm getting to that point."

Commissioner Ayme: "What page [inaudible]."

Commissioner Harris: "Is it the first or the last?"

Commissioner Geake: "First page."

Commissioner Ayme: "First page."

Mr. Hiscock: "Be it resolved."

Commissioner Harris: "Oh I have it."

Mr. Hiscock: "Directly in front of 4, in the last page."

Commissioner Harris: "I have it. Okay, I was going to say I have it. Be it resolved that the..."

Commissioner Ayme: "On the first page."

Commissioner Harris: "It's just before tab 4?"

Mr. Hiscock: "Yes."

Commissioner Harris: "Okay. 'Be it resolved, that the Commissioners of the Second Taxing District, hereby authorize General Manager, John M. Hiscock, to sign the master agreement, between the State of Connecticut, Department of Transportation, and South Norwalk Electric and Water for readjustment, relocation and/or removal of utility facilities highway project."

Commissioner Ayme: "Alright. We have a second?"

Commissioner Borges-Lopez: "Second."

Commissioner Ayme: "All those in favor?"

Simultaneously: "Aye."

Commissioner Ayme: "Opposed?"

No opposed.

Commissioner Ayme: "Abstentions?"

No abstentions.

REGULAR AGENDA:

Commissioner Ayme: "Item number 4 is the Public Deposit Interest. And I'll turn that over to Mr. Hiscock."

Mr. Hiscock: "Alright, if you would pass that down."

Commissioner Harris: "Thank you."

Mr. Hiscock: "You're receiving an amended interest calculation, and I'll explain the difference between the one that we sent in the package and the one I'm handing out now. If you look at the one that's in the board book you will see that it took into account the interest rate on 2 certificates that actually matured on October 8th and one on November 19th and when the calculation was made, looking at it on an annual basis, to come up with it, it weighted average 2.01% and while that's a valid analysis, if you're looking for a weighted average of the fund on the annual basis for the fiscal year, the one that was presented to you, looked at this evening, looks at the current interest rates and is an analysis for going forward. So, you can see that the interest rate dropped from 2.01% to 1.85%. As you can see, the interest rates are obviously extraordinarily low. The only thing that has left us in at least reasonably comfortable position, with respect to our customers is that the Patriot's Bank CD that runs through 2013 at 4.75% contains 542 million dollars. So..."

Commissioner Borges-Lopez: "Thousand. Actually..."

Mr. Hiscock: "Yes. That would be nice wouldn't it?"

Laughter.

Mr. Hiscock: "Excuse me."

Commissioner Geake: "Yes that would be really good."

Mr. Hiscock: "542 thousand dollars and change out of the 1.7 million dollars in customer deposits. The remaining interest rates are quite low as you can see. We are working to change the interest rate on the last one on the Patriot's Bank. You will recall that we obtained a blank permission from the commission to take out a 4% T bill at the time the interest rates were about 3.75%. We were going to strike at 4. We didn't get a chance to strike at 4 because the interest rates dropped precipitously very rapidly leading to the current situation. Had we chose to strike at 3 1/2 while they were declining and come back to the commission for that approval, we would have been in a better position. Consequently, right now, the customer deposits are earning 1.85% interest on an obviously weighted average and we need to lower the current 4% that we're paying on deposits, because in essence, we are losing money, and we're losing to the extent that customers who have deposits with us are getting better interest than we are receiving. We tried to manage this over the long term so that the amount we receive is equal to the amount we pay out and there are a little bumps and humps in it, but, this is a difficult one. The recommendation that I have this evening for you is that effective the next billing period we lower the customer deposit interest rate to 1.75%. We show 1.85 here. I'm suggesting we drop it to 1.75%. We would notify the customers of that and if we don't lower it, we are going to continue to pay out more in customer deposit interest than we are receiving from the bank, and that's just an inappropriate position to be in. I can answer any questions or any issues. 1.75% is still better than customer going to receive on any kind of short term money and you probably still have customers that would want to deposit more than they are required to deposit, if we could make a continued and get that interest rate. But at this point in time we're comfortable at 1.75% will hold us, you know for quite a few months. Moving forward. The fund is pretty much stabilized by the way. It's built rapidly. In the beginning we instituted it. It's pretty much stable now. It increases steadily as customers leave and new customers come on, but certainly it's relatively stable moving forward, and there is no real risk of us having to pay large amounts of funds out. And nothing is encumbered other than the money at 4.75 and we would just charged that with our regular funds anyway if we had to. So, it would take a total change in customer deposit policy for that to be lowered and I don't anticipate that happening. And again, the customer deposit policy is to minimize our write-offs and make sure that those who are able to pay, pay and those who are not able to pay, there are programs to at least give them some reasonable assistance."

Commissioner Ayme: "Alright, any questions?"

Commissioner Borges-Lopez: "Yes."

Commissioner Ayme: "We need a motion to approve the Customer Deposit Interest be lowered from what it is right now."

Commissioner Borges-Lopez: "I make a motion that we change the interest, lower the interest from 4% to 1.75% based on the analysis work sheet."

Commissioner Mann: "Second."

Commissioner Ayme: "All those in favor?"

Commissioner Harris: "Aye."

Commissioner Ayme: "Opposed."

No opposed.

Commissioner Ayme: "Item number 5 - Receive, Approve and Recommend to the Electors the Audit Report Comprehensive Annual Financial Report of the Second Taxing District for the Fiscal Year July 1, 2009 to June 30, 2010."

Mr. Hiscock: "It's in your board book under section 5. You'll see the draft for discussion only version of the audit. This is the document presented to us by the auditor. It's always in draft for discussion only purposes for this evening's meeting by the commission in case we would like to comment, have the auditors look at any issue again, so that if there are any changes to be made we can go forward with the changes. Procedurally, what would happen, if this evening there was a discussion that needed to, or that needed the document to be returned to the auditors, we would then schedule a special meeting next Tuesday night before the Elector's meeting to deal with a finalized version of this. If we go through this, this evening, and the commission has no areas in which they wish the auditor to look back at the audit itself, we could do that. Okay, the audit really is the audit. It would be unusual, highly unusual for the commission to return this to auditor, because of the auditor's independent work, but that is the procedure we use and certainly we could do that. I'm going to go through this in a little bit of detail and highlight some of the issues that have cropped up as a result of this audit and talk to you a little bit about how the department will be able to deal with some of those issues going forward because all the news in the audit is not good. There are some financial issues that we need to discuss, talk about and go from there. The introductory section, there is a simple letter of transmittal from myself to Mary E. Burgess, the Chairperson. Most of this you've seen before. I will describe it simply as boiler plate and it goes to explaining the reporting entity to those people outside of the district who look at this for the first time. It explains how the audit is laid out. You've seen all of this previously. The real change starts on page 5 which is Roman Numeral small 5, Major Initiatives. It speaks to the status of the AMI, the Automated Advanced Metering Infrastructure project and where we are in that project. It's simply informational piece to explain the status of that project. That project has appeared in prior audits. It's been updated to reflect the CMEEC joint stimulus grant for each of the Connecticut Municipals that have chose to participate in that. The rest of it is just, it speaks of the current status and where we are with respect to the installation completion dates. A new item listed is the Rate Study and we talked about this previously, and recently that we hired a rate consultant to evaluate SNEW's rate structure and bring it in line with current electric industry standards. The last time SNEW's rate structure was designed, now I am not talking about changes in purchase power or things like that. I'm talking the actual rate structure, the demand structure, the kilowatt, the inclining block kilowatt hour price for residential and all of those things that go into the rate structure design. That has not changed since 1992. So it's out of date and needs to be modified. That's a process the commission

will go through for the next three to four months. We'll be getting reports on the work as it proceeds. And there will be some decisions for the commission and the staff to make at that point. This is clearly just simply making everybody aware that it's moving forward. It's a major initiative and definitely needs to be put in the transmittal. The GASBE 45 section has not changed. It isn't a major initiative but it hasn't changed from the prior year. And the bulk power sub-station at the bottom of the page is really an update as to exactly where we are on that project. It speaks to the additional land, speaks to the Siting Council application, discussions with ISO New England and updates some timeframes with respect to completion of milestones as we move forward. Those are four major initiatives that we felt belong in this document. The rest of it is, it speaks about how we go about handling our books, what the internal controls are talks about the general government function, a little bit about debt administration and outlines the status of our current debt. It goes down to speak to other standard issues and really doesn't change much from year to year. We move on, it's just a list of officials, org chart, and then we get to the independent auditor's report. This is the report, this is the letter from Hope and Hernandez essentially telling you that they have audited the books of the district in accordance with accounting principles and standards and indicates their opinion and essentially that they have no specific issues in the audit. Next section is the financial section, the management discussion analysis. It starts off with some narratives. And the first significant piece of information that obviously varies from year to year is the District's Financial Analysis on page 4. This is a very, very summary style piece of information and compares government activities from 2009 and 2010 and then business type activities which is another column which is the electric and the water utility combined into a single statement, because government accounting standards are normally done this way. In most government forms the governmental activities are the major portion and there are not necessarily many type activities. Because we are a special district and 95 to 98% of our business is utility business we look different than most government forms and you can see that when you look at the numbers. As an example, the assets of the business current and other assets for the business activities are 22 million and general government activities are a million. I mean, you can see the order of magnitude. This is really for those outside of the departments to get a feel for what we are and how things have changed. A better piece of information is on 5 which is the change in net assets and just spells them out from year to year. Two of the, I'm going to give you a quick commentary here that if you look at the net assets ending, you'll see between 2010 and 2009, our net assets in governmental activities dropped by 21,000 dollars. Now these numbers are obviously in thousands of dollars and our business type activities dropped some, well from 46, 48 million down to 46 million. I'll explain why as we go through this and why. If you look at the statement at the bottom, the district's total net assets of 49 million decreased from the prior year by 1.9 million as a result of this year's operations. Look at governmental activities, the paragraph at the bottom of page 5, the District's General Funds expenses decreased by 2.92% during the current fiscal year to 182,943 from 188,282 spent in fiscal year 2009. You know that's positive that we have spent less money there. It just goes down through each of the things that explain where we spent more, where we spent less. Nothing unusual about it. The variances are relatively small from year to year. Top of page 6, we have business activities, you know, district business type activities accounted for a decrease in 1.9 million dollars in assets, not cash, a directly but 1.9 million dollars in net assets. That's an issue. We'll talk about that. Electric had a decrease in operating revenues from up to 186,000 to down to 14.8 million. We sold less kilowatt hours. If you drive around the district and look at the vacancy rate in the business district, it's quite high. If you drive down Washington Street, drive down North Main Street, there are vacancy signs all over the place. We had a major decline in business, not kilowatt hours sold. It's an important issue. Electric rates have gone up. But usage has gone down. Water had an increase in total operating revenues of 39,000 dollars up to 6.5, an increase due to last

year's rate structure increase. Water sold less gallons than the prior year. I think you probably heard that from our staff and my comments in the audits from the last several years. Every time a building is rebuilt all the fixtures inside of the building are new water saving conservation fixtures due to plumbing code. If you take down an older four unit apartment building and replace it with a new six or eight unit apartment building, the water use goes down. It doesn't go up because all the old toilets and all the old fixtures and all the old showers disappear and all the new water conservation devices take over and so while we may service slightly higher population year to year water, consumption has been going down steadily since the mid 70's. We have a safe yield of about 5.5 million gallons a day. We were pushing close to that at one point. We're now down to significantly less than that looking at about 5 million gallons a day. The good news is that we don't need additional sources, we don't need to expand our facilities. The bad news is, our revenues are down. When your revenues go down the unit price for the customer goes up, and the price per gallon increases, but the actual gallon used by the customer decreases. So, on balance, the customer's rate doesn't or the customer's total expenditure in the aggregate system wide, is not increasing. A budgetary highlight just indicates we didn't change the budget term of the year. I'm not going to read through all of this. Essentially, it lays out where the changes are and I'm sure you've already looked at most of this. Although, as we get deeper into it, we're not going through all the numbers. The long term debt is decreasing. Good news, the very good news for the water utility is that at the end of the year the district only had 600,000 dollars outstanding in bonds from the 1997 general obligation bond sale. In two more years, that bond will be paid off. That will be an increase in cash flow of 300,000 dollars a year. That's a nice number. Then the next paragraph is the bad news. The long term debt associated with the filtration plant is still 22.8 million dollars. We paid down 1.9 million dollars. Debt service on the filtration plant is a big number. Our brand new filtration plant, we're going to pay it off over twenty years. That's a big number. If you look at that in relationship to our revenues, and I'll speak about that in a minute, it's a very, very significant portion of our revenue is going to our debt service. Moving on to the Financial Section, I'm going to highlight a few areas here. These are the real numbers that we get to look at, you know. This is not a narrative, these are the real numbers."

Commissioner Ayme: "John."

Mr. Hiscock: "Yes, stop me at any point in time you want to ask questions."

Commissioner Ayme: "I was wondering if there is a loan on the filtration plant, the loan that we have, the outstanding loan, you said 2.04..."

Mr. Hiscock: "2.04%. That is a safe drinking water act loan funded by the Federal Government, administered by the state, and its one half of the state's bonding rate, the year that we finalized the loan. Okay? Unfortunately it's not something that we did two years ago or a year ago. It would have been better than that but, over the long haul 2.04% is a good interest rate."

Commissioner Ayme: "It's not bad."

Mr. Hiscock: "It's not bad at all. It's a very comfortable position to be in. Assets page, on page 8, the top of the page, current assets, governmental activities, 986,000 dollars. Cash and cash equivalents, in the business activities, 15.1 million dollars. Despite the current situation with respect to income in both water and electric, we have a significant amount of cash and cash equivalents, most of it being in the electric utility. That's a good position to be in as we move

forward on our approximately 10 million dollars sub-station. We haven't come up with the financing plan for that yet. We need to know the actual dollars. Another interesting number, if you look at non-current assets utility plant at cost, plant and service netted accumulated depreciation. In the two utilities we have 15 million dollars in assets. Big number. Moving down to the liabilities, side of it. Nothing different than most years. It's fairly normal. Current liabilities, we got Accounts Payable, customer deposits in advance, as we talked about that a few minutes ago with respect to another agenda item, 1.7 million dollars. That's money that's not ours. It's our customer's money and that's why it's showing as a liability to us. There's some short term debt in there. There's some payroll things, like accrued compensated absences, reserve for sales discounts and I'm not going into an explanation of that, but that has to do with our discount procedure. Then we got bonds payable short term 300,000 (dollars) on water, and loan payable water filtration plant one million dollars also water. You'll note that they are two different categories. One is a bond because it's our general obligation bond that we issue. The other is a loan payable because it goes to the state as a loan and the state issued the bonds to come up with the money to give us for the loan. It's a technicality we still owe them money, but when rating agencies do a financial analysis on it, it's hard to understand, but they don't pay very much attention to the loan payable. They are much more in the general obligation bonds. And they may want to look at the coverage ratios with respect to the load, but they generally don't concern that our debt which to me is amazing. It's just the way they calculate everything. Non-current liabilities, the two big ones are the net OPEG obligation of almost 700,000 (dollars) and again the loan payable for the water filtration plant of 21 million dollars, 21.7 million dollars, okay? If you look on page 9, it just goes over the general government form. It speaks to the expenses and if you look through this you'll see that the expenses are covered by transfers down toward the bottom of the page of 160,000 dollars from the two utilities, because as you know, the government has no income. The general government has no income other than interest on the general fund. These are just public officials fees, clerks salaries, treasurer salary, community service projects, legal, accounting and insurance, meeting, printing and other and depreciation expense. So it's simply the things that we use to keep the general government running, and as we all know, the general government is very small. Fund Financial Statements – These are the important ones, the utilities. The first one is the balance sheet for governmental funds looks like every other year. It's about a million dollars and we end with about a million dollars, because we take enough money from the utilities to cover the operating expenses of the district, so unless we spend money for a capital improvement or something else, or don't contribute from the utilities, the number stays the same and from year to year it stays right around a million dollars. And we plan to leave it there. It used to be about 2.4 million dollars before we spent the money on the Library. Most of us remember that. Skip over to page 12, but again you've seen the summary. This is simply interest revenue of 3,000 (dollars), expenditures of 135. The deficiency of 132 is made up by 160,000 (dollars) that we transferred from the two utilities so we had an excess of 27,000 dollars. When we deal with the budget in March we'll take all of this into account and set the contribution accordingly. If you look on page 14, it just shows us the budgeted amounts vs the actual expenditures and as you can see that we spend less than we budgeted. We budgeted in total expenditures, we budgeted 184, 900 (dollars), we spent 135,507 (dollars). Page 15 – This is where we take the business and break them down into the water utility and the electric utility. This is where you really see the cash reserve difference between the two utilities. Under the current assets, if you look at cash and cash equivalents, you'll see the water utility has 35,512 dollars, while the electric utility has cash and cash equivalents of slightly over 15 million dollars. If you look at the, as an example, if you move down to the total current assets, water is 1.9 million, electric is 18 million for total for the district to 20 million dollars in current assets. Then you go down through the non-current which are utility plan and all those things and all those numbers look

very nice. Can't spend them though. You can't move them, you can't sell them. They are all the things that are necessary to run our business. Without pipes and wires we have no revenue because we have no customers. So, while it's, it looks very nice in the balance sheet, it's not something that we can use for anything in particular. You go down through the liabilities, the current liabilities, they don't change much from year to year. They vary up and down. There is nothing unusual without them. 1.6 million for water, 2.9 million for electric. The real big number is when you look at the total liabilities because of the non-current and you can see debt. The water utilities debt is extremely high. Electric has zero debt. When we complete the sub-station that may not be the case, but right now, because of the two year old filtration plant and the fact that it has a useful life of about 30 years, and we financed a very large portion of it, we're going to continue to have large debt in the water utility for years and years to come. It's not unusual in the utility. It's fairly standard. "

Commissioner Ayme: Mr. Hiscock, I need to ask you something."

Mr. Hiscock: "Sure."

Commissioner Ayme: "If you can refresh my memory, from way back we have spent, in terms of capital improvements for the Library, there was a, an expenditure of 4 million dollars of which we paid about 2 million dollars and the City of Norwalk paid 2 million. That goes way, way back."

Mr. Hiscock: "I think our total outlay, Kevin you may remember better than I, I'm not sure but I think it was about 1.4 million."

Mr. Barber: "1.4."

Mr. Hiscock: "Yes. 1.4 was our total outlay."

Mr. Barber: "It is a possibility."

Commissioner Ayme: "Alright, 1.4. What is this 160,000 dollars that we are paying here?"

Mr. Hiscock: "I'm sorry, where are you?"

Commissioner Ayme: "On page, I'm sorry, on page 14."

Mr. Hiscock: "Okay."

Commissioner Ayme: "Towards the end of the page."

Mr. Hiscock: "Right."

Commissioner Ayme: "Page 14, towards the end of the Operating [inaudible] 160,000 dollars."

Mr. Hiscock: "Oh, that's the 80,000 (dollars) from each of the two utilities."

Commissioner Ayme: "Oh, okay."

Mr. Hiscock: "That's a direct transfer that the electors and the commissioners approved in March during the budgetary process. We budgeted to transfer 80,000 (dollars) from each utility to the district and we did it."

Commissioner Ayme: "Right."

Mr. Hiscock: "And we did it because we only had 23,000 dollars in interest income budgeted and we actually only ended up with 3,000 (dollars) because of the precipitous drop in interest."

Commissioner Ayme: "Oh, okay."

Mr. Hiscock: "So in other words, to make up the 161,750 dollars shortfall, two lines above that, we transferred from the utilities."

Commissioner Ayme: "My mistake."

Mr. Hiscock: "Not a problem."

Commissioner Ayme: "I must be thinking of something else."

Mr. Hiscock: "Oh, okay."

Commissioner Ayme: "I need a new pair of glasses]."

Mr. Hiscock: "Yes, the capital expenses liability improvements we spent nothing. I can see where you couldn't follow the line. Now since I wear glasses all the time I can see things better. Myself."

Commissioner Geake: "And so does Al."

Mr. Hiscock: "Okay, move over to page 16. I don't want to go line by line but if you look at the total sales of water 6.394 million, total sales for electric 14.242 million, don't change much from year to year. One number I want to, I always called your attention, and I just need to remind you of it all the time. It looks like there is a huge difference between the electric utility and the water utility from an operations perspective based on the revenue. But if you move down, under the electric column, under operating expenses, and this is a frightening number when you think about it. Out of the total operating revenue of 14.800 million dollars in electric, 10.4 million is purchase power. I mean that really means that we operate the electric utility essentially on 4.4 million dollars a year. That's all that's left to handle operations. Interesting number. It's different from the water utility, because the water utility doesn't buy its water. It creates its water from the reservoirs and investments we made a long time ago and cleans it in the brand new filtration plant. So, the statements look a lot different because one has a lot of debt service to cover the new plant and other has a lot of purchase power, so that when you wash them both out, it turns out that the two utilities are very similar in size. We go down to the Operating Expenses - the total operating expenses of the water utility is 7.7 million. The total operating expenses of the electric utility is 15.3 million. These are the bad numbers. Operating income from the water utility declined by one, or negative of 1.1 million dollars. That's a very large number. The electric utility is 488,000 (dollars). The operating income loss for the two utilities is 1.6 million. I mentioned that we dropped about 1.9 million in assets in the district. It's right there. That's exactly where it is. Where are we going

with that. And I'm going to stop and just tell you where we're going. The water utility we've been doing some cost cutting in a couple of different places to kind of improve this. We've been not filling vacant positions. We're sort of doing the best we can. We had a resignation in the spring from the department. We did not replace that individual. Actually, it was a retirement. We're doing a little bit of things with travel and minimizing travel and making it essentially educational travel and nothing else. We've gone to an outside power supplier. If you lower our cost, that's helps us a little bit. So, we're making some changes. The other thing that you would like to know, the First Taxing District Water Utility who is very, very low, but share the same city as us, for a very long time has had low rates. You've probably read in the news paper that they just raised their rates to a more reasonable level, a more logical level. They raised them to slightly under our rates, as opposed to well under our rates, and the First Taxing District is no longer the cheapest utility in the state. Okay, and those of you who have been on the commission for a while know that we've been hesitant of raising our water rates, because of that comparative analysis that is not, it just got to be such a differential that it became difficult. I think we're going to look at that in the upcoming year and, the other situation that you need to know about, and I think you probably remember it, is 2/3 of our water revenue actually come from out of the district. Only 1/3 comes from inside the district. So, when we make those changes, not only are the residents of South Norwalk and business of South Norwalk paying it, but you know, the other half of the city, Silvermine, East Norwalk, Rowayton, West Norwalk and others, so the damage is spread over a much wider base. When we change rates in the electric utilities, it is only Second Taxing District residents. And that's something that we all need to think a little bit about and note, okay? The operating income in the electric utility was offset a little bit and used to be offset by quite a bit for interest income. And you've heard me say before that the total none-operating revenue expenses or the income, yes, let's speak about it there, has been offset by good interest rates so that very large amount of money in the bank has been floating the electric company for a very long time. We had a precipitous drop in interest rates, consequently that interest income has not been able to shield that negative situation in the electric utility. Another thing to note is the SNEW electric rates are the second lowest in the state. And we're going to need to look at that. Wallingford is slightly under SNEW based on the latest numbers from CMEEC. We're doing better than the other munies, but it shows right here. It shows right here. I'm reluctant to recommend a rate adjustment other than the PPA change which we do in January and February until a rate analysis is done and we have a modern logical defensible rate structure. I do not want to make a major or recommend a major change in electric rates. One, the economy is not a very good time to do that, and two, I don't want to be in a situation where our older style rate structure raised on an across the board percentage basis, will skew some of the rates even worse than they are skewed now. Because of the older style rate structure and the fact that the man charges haven't increased in a very long time, have skewed the income to the kilowatt hour sales as opposed to the kilowatts for demand, which means the bigger customers are getting a brake. So until we correct this with the rate study and a new style rate structure, I don't want to take action to resolve the situation. We will have this resolved and you will be dealing with it before the end of this fiscal year, and in the budgetary process in March we'll take all of this into account. So, I know I digressed from the audit but I thought it was important to let you know about those issues. Page 17 is the Standard Statement of Cash Flows. It's simply where the cash comes from, where the cash goes to, what we utilize the cash for and where it comes from. This is an interesting document from a management perspective. It really doesn't, doesn't really give you a lot of information about the business, okay? And then we have the notes, and the real detail, by the way, is way in the back under the section that you've seen the supplementary combining an individual fund schedules and there, everything is compared to the budget, the expenses are laid out in much more detail, and we'll talk about a table in an minute. Notes: They're very similar from year to year. There is

nothing very unusual in these notes. It's simply a little bit of additional explanation. I'm trying to see if anything is notable I don't want to indicate. Under Investments, you'll see a table of investments. It talks about risk, it talks about the amount of money that we. It simply spells it out in sort of accounting terms. And that's fine. It speaks about the banks, where our money is held, informational. Utility plant depreciation schedule, that never changes from year to year. It goes on for pages, listing how we depreciate all of our assets. But it's all important for the audit. It's just not something that we speak much about because we don't change them. Accrued uncompensated absences, that changes from year to year. Simply explains the liabilities that we have with respect to our employees and their sick pay and accrued sick pay and what we would pay out if all of our employees left tomorrow and obviously they're not all leaving tomorrow, but it does explain the liability. An interesting one that we talk about every year on page 26, in note D, second heading, Rate Stabilization Fund – Electric balances of rate stabilization fund held by CMEEC is 5.6 million dollars in the trust account and the municipal trust, and 276,000 in a non-trust account. That is our funds that are deposited at CMEEC. They are ours to use if we need to use them. There are rules with respect to using them. We can use them for a whole host of things, capital improvements, economic development, in things like rate stabilization. There is a policy and a procedure at CMEEC to use them. So that's some additional cash. That's all in the electric side and it's all in the electric business. It offsets some of our debt at CMEEC and as you are aware, as CMEEC issues debt, they do it in a form of revenue bonds and those revenue bonds are covered by CMEEC's revenues and CMEEC's real revenues come from the utilities, so in essence, our revenues cover those bonds, but there is not direct linkage between CMEEC's debt and our debt other than the powered sales agreements, where everybody's revenues are pledged to cover the bonds. [Inaudible] on 27 there is a capital asset summary 28, is just a summary of plant for the business type activities again. These are wires and pipes and buildings and all the other assets we need to deal with our business and it's the beginning balance, the additions, the disposals, the reclassifications. Rate structures are showing here. Page 30 there's the debt. You've seen all that. The Municipal Employee's Retirement System is here because it explains what it is. We belong to CMER. All the funds are held at CMER. All the responsibilities are held at CMER. We pay a percentage of the payroll and we true it up based on their actuarial analysis and right now our true up is bigger because of everybody's problem with respect to pension fund and their investments. It continues on for several pages explaining what it is and again, something out of our control, but here is all the information with respect to it. Now, this is where we get to some, no not quite. This is all CMER. Page 39, you got the Post Employment Retirement Benefits Electric and Water, the OPEB that we've been dealing with. It just a lays out a note and goes over and explains it. This is the actuarial calculations with respect to the annual contributions. Interesting thing that would note at the bottom of the page, if you look at the percentage of AOC contributed, we only covered half of the AOC for the year and that changes our net OPEB obligation. Page 41- We talked about this a lot. Our actuarially accrued liability for OPEB is 9.4 million dollars. 9.4 million dollars are the benefits for the employees for essentially health care for post retirement, or actually for retirement, once they leave the employ. That number would be huge if it wasn't for actions that the two utilities took. In 1991 the water utilities stopped any post retirement health benefits and in 2001 the electric utility stopped it. So for the new employees there is nothing. This is for the longer term employees that have been around for quite some time. And we have a lot of them. So, the bad news is, it's a big number. The good news is, it would be way bigger if we had continued those benefits until today. Way bigger. From the employees' perspective, you know, it's not something they are happy about. But, I think it's a realistic position to take and that is a benefit that slowly seems to be disappearing or at least identified in the public sector. Yes"

Commissioner Harris: "I'm sorry, can you just say again what year did you stop the water and the electric."

Mr. Hiscock: "Water – 1991 – Electric 2001."

Commissioner Harris: "Thank you."

Mr. Hiscock: "And that was because the district used to be two separate entities and two separate commissions and two separate sets of management. Okay, if you move to page 43, this is the detailed budget, the actual, this is all the information with respect to offering income broken out in more detail, expenses broken out in detail. If you move to 44, you will see the capital program. If you look, for example, capital projects and you know that we budget annually for capital projects. You'll see some of them go back to 2005 and run right up to 2010. It was the appropriation or expense, current status. The water utility would generally budget on a project basis so that until the project is absolutely completed, it stays here. You'll, while you can't see it from this document, you'll see that the water utility capital expenditures have declined significantly other than the filtration plant and that has to do with cash. You move to 45 and you'll see the budget vs actual for the electric utility. You move to 46 you will see the capital program. For the electric utility you can see some go back to 2005, not many. Most everything is 2008, 2009 and 2010 which are ongoing projects. Some of them have been completed and you can see the status in the right hand column. You move to 47 and there is some additional capital budget information. And you can see that if you move further down the page to the column, more of them say I'm going and less of them say completed and that's certainly logical. Utility plant in on 48. This is just the depreciation schedule. It goes on for several pages. More detail on 51 and 52. The detail on 53 is the community service funds the largest one being the Summer Youth Employment Program. The rest of them are simply beautification, cleanup in South Norwalk. Statistical section – Page 54, a ten year comparison for water. The operating revenues go back to 2001. It was 3.8 million (dollars). Go to 2010 and it's 5.6 million (dollars) for residential and commercial and it goes on and down to industrial sales to public authorities, fire protection, water for resale, and miscellaneous service revenue. If you look at the total operating revenue for water in 2001, it was 4.6 million (dollars) to the operating revenue now of 6.5 million (dollars). If you go down to the bottom half of the page, you will see the expense in all the same details, spelled out, showing the trend for the last ten years. Operating expense went from 3.5 million (dollars) in June of 2001 to what we mentioned before 7.7 in June of 2010. Biggest number change is depreciation and amortization related to the new facility. You look at 6.37, 7.50, 7.60's dropping back to 6.60's, 7.09 in 2009 and jumping to 2.6 million in 2010. That's the plan. Rates, historical table of rates, historical table of water production, then we have the historical operating revenues expenses for the electric utility. Again, you look at the operating revenue in 2001 of 10 million (dollars) going out to 14.8 million (dollars) in June of 2010. You'll look at the expenses from 10 million in 2001 to 15.3 million in 2010. Big number that you want to look at, purchased electricity, 5.6 million in 2001, purchased electricity 10.4 million in 2010. That's a big number. Electric has not quite doubled in ten years but very, very close. We all know where that goes. Kilowatt hour sales for electric showing the trend by rate, class and then by totals. We haven't changed much. In 2001 it was 85 million kilowatt hours, peaked in, and is very weather dependent, in 2003 dropped back and then 6, 7, 8, 9 stayed in the 92 million and then you see it drop back to 88 again. In 2010 kilowatt hours have declined. And then you see the sales number. Then you can see it's related. You can see the trend there. And then you got the net discount. General Funds – Again comparisons over the years. They really don't change a lot from year to year. Interest income, 2000 was 101,000 dollars. Interest income, 2010, 3,000

dollars. Now, if 2.4 million dollars take away the 1.4 million from the Library, that's a good portion of it, but also a big portion of it is interest rates. You can see that the transfer's in from utilities were 100,000 in 2000, 160,000 in 2010. The rest of the information is tax information and that's years by the rating agencies, to look at our ratings. It has to do with the tax. Taxable base and where we, how we relate to our major customers and then also how it relates to the city. And that's really the audit."

Commissioner Ayme: "Any questions?"

Mr. Hiscock: "In summary, our revenues had declined slightly. Our expenses have increased for specific reasons that I previously explained. We are running negative incomes in both utilities."

Commissioner Ayme: "Any questions? No questions."

Commissioner Mann: "I do. I have one question back to page 53."

Mr. Hiscock: "Yes."

Commissioner Mann: "Didn't we do something like 1,500 dollars last year for a dinner for the Thanksgiving dinner?"

Mr. Hiscock: "Yes, clean and green sonic."

Commissioner Geake: "Oh, okay."

Mr. Hiscock: "Yes, and the reason for that is, we put the funds through the city's sonic funds. We do not disburse them directly to the individual who runs the event. And that's the control mechanism that the commission wanted."

Commissioner Ayme: "I have a couple of questions also. The funds, liquid funds that we have invested in the treasure bills that we talked about, you know, a couple of months ago or last month, and the balance of that, that we have invested in CD's. That's pretty much remains the same right?"

Mr. Hiscock: "Yes, it pretty much remains the same. The only difference is most of the funds are now moving to money markets because there's no difference between them. We're doing a little bit better in money markets actually, than we're doing in CD's, but you know that varies from month to month, up and down. We all seem to be locked in that 1% and that's about where it is. Whether it's, you know, we can..."

Commissioner Ayme: "The total amount hasn't changed much."

Mr. Hiscock: "No, no."

Commissioner Ayme: "So it's pretty much the same."

Mr. Hiscock: "We've been looking at toying with, dealing with some long term CD's that pay higher interest rates and then looking at the break point as to when you would turn them in and take

the penalty and then move into a highest interest rate vehicle if, as interest rates increase. We're looking at that trying to do a little bit better, but there isn't much to be done."

Commissioner Ayme: "The other question that I have is on page 60."

Mr. Hiscock: "Yes."

Commissioner Ayme: "The information that we keep requesting from the City of Norwalk, are we showing the largest properties within the district on the largest assessment, as a comparison? We keep requesting this information from the City of Norwalk and they have failed to answer, to respond."

Mr. Hiscock: "That's correct."

Commissioner Ayme: "To our request."

Mr. Hiscock: "That is correct."

Commissioner Ayme: "However, this is all the public information that we can get."

Mr. Hiscock: "We could spend some time and some energy and some effort..."

Commissioner Ayme: "I know."

Mr. Hiscock: "And, do the research and construct this table. Our issue is that if we do it, it's not a certified work. Okay."

Commissioner Geake: "Oh, it has to be done by the city."

Mr. Hiscock: "It would be our estimate. Now, I mean we could certainly do the work, and to, the city has chosen not to do this, and they're obligated actually under the Charter to do this."

Commissioner Ayme: "They are."

Mr. Hiscock: "We could certainly make a complaint to the City and try to get them to move forward and do it. Maybe they're overloaded. Maybe they just don't see the value in this information. The only issue that I can see going forward is if we get into a situation where we need to get re-rated by the rating agencies. We're to need some of this information. When that's going to occur, Moody's looked at our rating from 1997 last year to AA1, which is obviously a very good rating, and decided that they didn't need to do a full rating. They simply said there was no reason to alter our rating. However, if we do go back and decide to use GEO bonds to build the sub-station, we're going to have to get re-rated. Then we're going to have to deal with this issue very specifically."

Commissioner Ayme: "Well, I would like to know I will do it. Next meeting has been put on the agenda, not right now but [inaudible] agenda. Send a letter of complaint to the City of Norwalk."

Mr. Hiscock: "Okay,"

Commissioner Ayme: “Beyond that, I don’t know how feasible this would be, but I would like to see a total amount of the tax payers within our district. If we could get that from the city, not only the properties that we show here, but the total amount of the tax payers. I would really like to see that.”

Mr. Hiscock: “Okay, that’s fine. We can certainly, I will informally inquire with the Office of the Assessor and find out why they are not doing this and see where that goes. Even though we should formally issue a letter, I will informally find out what their issue is and why they decided not to respond to our requests, because this is basically a certification issue. We send a letter to them saying that we want the information, it’s got to be certified and the whole thing and if they don’t respond, they don’t respond. So now we need to know why they don’t respond.”

Commissioner Borges-Lopez: “I just have one question here on the largest assessment, Town House gardens co-ops is no longer Townhouse Gardens at all. It’s Sono Gardens Condominium Association.”

Mr. Hiscock: “Yes.”

Commissioner Borges-Lopez: “That’s how it is with the City as well, so I just wanted to point it out. I don’t know how important that is but...”

Mr. Hiscock: “Yes, the problem this is 2002 data.”

Commissioner Ayme: “Any other questions? Okay, we need a motion to approve the audit, the presentation for the elector, the elector of the Second Taxing District of the upcoming meeting November the 16th.”

Commissioner Borges-Lopez: “I make a motion that we receive, approve, recommend formal by the electors the audit report for the Second Taxing District for the fiscal year July 1, 2009 through June 30, 2010.”

Commissioner Geake: “I’ll second it.”

Commissioner Ayme: “All those in favor?”

Simultaneously: “Aye.”

Commissioner Ayme: “Opposed?”

No opposed.

Commissioner Ayme: “Alright now the next item on the agenda, we have the annual meeting, the agenda for the annual meeting, it’s pretty much straight forward. It doesn’t change from year to year, always basically the same. Any discussion on that?”

Mr. Hiscock: “I just want to simply point out that are three items on the agenda all on the agenda, based on the Charter. One is the election of the electors to the ethics commission, and we have a very specific charter driven procedure for that, obviously the audit that we just went over, that’s the

second item and the third item is to set the compensation for elected officials of the district. Generally what happens, I give a brief report to the electors of what the current compensation is and then the Chair opens it to discussion from the floor and that ends up wherever it ends up based on the desire of the electors.”

Commissioner Ayme: “Do we need a motion for the publication?”

Mr. Hiscock: “No.”

Commissioner Ayme: “Oh, okay.”

Mr. Hiscock: “No, no, this is a requirement that it be published this way. So this is really just information so everybody remembers the items that will be on the agenda, okay, and if you want to refresh your memory with respect to what happened last November, so you’ll know what’s going to happen maybe this November, here are the minutes. Verbatim.”

Commissioner Ayme: “Alright, the next item on the agenda is Public Participation.”

PUBLIC PARTICIPATION:

“My name is Michael Mushak, I live at 50 Elmwood Avenue. I’m not sure what your criteria on Public Participation is. Does it have to pertain to an agenda item or that particular...?”

Commissioner Ayme: “No, no, you may state your opinions or...”

Mr. Mushak: Okay, I’m just going to give you a real general overview why I’m here tonight. I’ve never been to one of your meetings before, and I know it’s late, and I’m a Zoning Commissioner as well, but tonight I’m Chief Justice of the private Sector. I don’t represent the city in any way and I serve gladly and we don’t go over budgets like this and God bless you for going over all of these numbers and, anyway I love living in South Norwalk and I’m just going to give you a quick overview of some of the things that I do and I thought there might be other members of Golden Hill Association here tonight to discuss the Cedar Street renovation but they’re not here I’m kind of assuming that, that is going to be discussed at another meeting. So, I’m just going to give you an overview. I assume you all live in South Norwalk as commissioners and so you may be aware that there is a renovation that’s planned for Cedar Street which is right, this section of Cedar is in Route 1 and down to Fairfield Avenue, that little commercial strip, and the city after seven years of begging we got 1.4 million I believe, from the city and they’re working on plans to renovate the street and we do the utilities, etc., and that is going to be really nice and it’s a gateway to South Norwalk, and that’s what we feel. There are other plans. We do Fairfield down to Flax Hill, in the works. I just took over because the city wasn’t maintaining the park on Trinity Place which is where the statue is, the civil war statue. The grass was two feet high. I thought it was the Second Taxing District and I thought I’ll give you a real quick history. I called and explaining and I said this is city property and the city said we don’t have any staff. They said if you want to take care of it, that’s fine, so actually I submitted a plan to adopt a spot so I’m actually maintaining and will be putting some wild flowers in there, I’ll put daffodils, and we’re fixing it up. Then I convince the city to buy trees and they planted twenty seven trees along Martin Luther King and including that park, so you’ll see a bunch of new trees in there. For five years I’ve been getting trees planted in the Golden Hill section, but now they’re branching out to South Norwalk. So, I want to ask you just

formally, if anybody knows a place that needs trees let me know. South Norwalk does not have a tree liaison to the Tree Advisory Committee. I served as a Tree Liaison for Golden Hill, but I will do that for the whole South Norwalk if I need to. If you anybody that need to put a tree up in front of their house. We try to do them on the street of the property, but its right inside and its right on somebody's private property, which we do that as well. You just have to sign a statement to take care of it. But just get in touch with us. So that will cover that area. And I don't want to take up too much of your time, except to say that just as a private citizen I'm really worried about South Norwalk, the economy and you know. Mr. Hiscock mentioned the empty store fronts and there seems to be too much energy in South Norwalk about merchants getting together. But 50 Washington, I tried to talk to the owner there to see if they'll up the building with different colors like the Empire State Building, so you now, you won't be changing every night. They can do that with LED lights now which are very low in energy. And the bridge, we're inclined to light the bridge from redevelopment and the plaza, you know in the corner, by the employment office, that's kind of disgraceful I think, that apartment that's right on the corner of [inaudible] Washington Street and Main Street, near the trestle . There's a park right there."

Commissioner Geake: "Yes."

Mr. Mushak: "Its really bad. The benches are rotted, the painting is all popping up and the city is really responsible for that."

Mr. Hiscock: "That's a city park."

Mr. Mushak: "I know it is. And I know, and you know, I can talk to the city as an insider now and start to talk to different city officials. I'm on the record right now. But I'm just saying it's frustrating, because you have to start screaming and yelling at the city but I'm kind of not screaming and yelling but I'm, we're having a meeting on Thursday with the owners of 50 Washington. The Averick building is being redone, right there you know, the old furniture building. That's going to be apartments. There'll be restaurants at the bottom level. So, I'm trying to get the plaza to renovated basically and I'm trying to departments to start talking to each other and you get to replace those awful lights that don't work, etc., so I just wanted that to be on your radar screen as South Norwalk residents and I know that the Golden Hill neighborhood and the Cedar Street project is interested in requesting some assistance as you are [inaudible] statement is taking care of public spaces and you know maintaining them and I know that that is going to be of an interest and just want to throw that out on your radar screen, but I just want you to know that a lot of people that are working hard on the street level. I did the planters on Washington Street in front of the Police Station. There's pots. I donated those. [Inaudible] in the spring. So, we're all trying to do something but it's just frustrating when the city doesn't invest in itself and I know you guys are doing a hard job in going over these numbers and all these realities we're dealing with. But there is so many others, I mean everybody, Ryan Park, its all across the board, but I think there is a new energy in town and I just leave you with that positive note that you know, even if we ask you to help us, it's from a spirit of we all have to work together and you know, I'm really proud of the Library, I'm proud so many things but there is so much room for improvement, compared to foods I'm really happy that went in. The new supermarket, I designed the whole planting out in front of it. It helped the gateway design [inaudible] because I'm a landscape architect. Slowly we're doing all these things that are just making the whole city nicer, but I really do concentrate on South Norwalk. I think this is the neighborhood, its beautiful. It just needs a lot of help. I'll be talking to you next meeting probably."

Mr. Hiscock: "Yes. I just want to catch up a little bit on the issue. The reason Golden Hill hasn't come to our meeting, we are trying to flush out the issues between the state, the city, and the project and we've been attending DOT meetings trying to get information and we're getting there but nobody really knows the scope of the project at this point and what the 1.4 million will cover and we are also talking to each other so I think Golden Hill has been waiting to get a little bit more information before coming to the commission."

Mr. Mushak: "Okay, thank you and I think they are trying to avoid the situation what happened on New Canaan Avenue on the other side of town when they built that bridge and they left it un-built, I mean half built for two years, just sitting there, if you all remember that going that way. And that's because the utility companies weren't coordinating with the construction company, the contractor that built the bridge, and so that, I think that Jim Clark and Jim Del Grecco are doing..."

Mr. Hiscock: "Right, right."

Mr. Mushak: "Are doing a stellar job just as volunteers and city residence to try to get everybody to talk to each other because you'll be amazed, how these big projects happen and then nobody's really going to talk each other, so. It's in our interest, everybody's interest to get that project running smoothly because its going to be a huge construction to, when they re-do the 95, we're talking the 95 expansion as well as the Cedar Street because the building they're replacing the three bridges. Its going to affect all of us. But that whole area is going to change rapidly because you have the Fire Department that's going to be re-built, the Community Health Center, which is amazing. Its up there now. There is a new pharmacy going there. I know that as a zoning commission, a CVS is going in. That whole strip, new sidewalks going all the way to Scribner. You can't even walk on Route 1 now. I don't know if you ever saw that street, there's no sidewalk. So, that's going to be a whole new area. But the replacement of the bridge is part of the 95 project."

Mr. Hiscock: "Right."

Mr. Mushak: "It kind of phases into the Cedar Street that is connected and where all of that, it has to be coordinated, but I don't want to take any more of your time, but I just wanted to give you grass roots report. How's that?"

Laughter

Commissioner Ayme: "I thank you on behalf of the commissioners. In the mean time if we get a request, where should we send it writing? Do you have an address or should we send it to you?"

Mr. Mushak: "For the Trees."

Commissioner Ayme: "Yes for the trees."

Mr. Mushak: "Yes, you could send it to me directly. I have a, I have some business cards here I could hand out."

Commissioner Ayme: "Give your name and address. Yes business cards."

Mr. Mushak: "My email's on here."

Commissioner Ayme: "Oh okay."

Mr. Mushak: "And, you know the city, the city spends 50,000 a year on, yes, you could hand those out if you don't mind, on trees, on public right of ways and I've been demanding that they spend that on South Norwalk, for the last five years, and so we really have been getting our share. Now there's Martin Luther King which is great. You can walk to UPS and Harvey Industries, you'll see all the new oak trees. That was me working with the city, and try to get those in. If I got a letter to the editor coming out hopefully this week thanking everybody, but, you know, if you beg and really make yourself really annoying, sometimes you do get some things done and the trees are really a good thing, planters are good, trying to get the streets cleaned up, trash is terrible. There are a million things. Got to pick your battles in this town otherwise you go crazy, but I believe in quality life, keeping the streets nice and having a nice clean place to sit and not having to worry about falling through the bench because its rotted. We are looking for other liaisons for the South Norwalk, but obviously there are some neighborhoods that just don't have representation. They don't need to have neighborhood association, but I'm I happy to go down the Lexington Avenue or Ely."

Commissioner Ayme: "Well that's good."

Mr. Mushak: "Oh yes, yes. We went down Martin Luther King all the way and we wanted more trees and we got 27 trees here and we're going to get more as time goes on, so that's it. I can talk a lot."

Laughter

Commissioner Ayme: "Well, Thank you very much."

Mr. Mashuk: "After all its those numbers you might just need to have a little.

Laughter

Mr. Hiscock: "Okay."

Commissioner Ayme: "We need a motion to adjourn."

Commissioner Borges-Lopez: "I make a motion to adjourn."

Commissioner Harris: "I second it."

Commissioner Ayme: "All those in favor?"

Simultaneously: "Aye."

Adjournment

The meeting adjourned at 8:30 p.m.

Attest:

Gwendolyn Gonzalez
Asst. District Clerk

Transcribed by: Connie Farrugia
Reviewed by: Gwendolyn Gonzalez