

MINUTES
FINANCE COMMITTEE MEETING
NOVEMBER 15, 2023 (VIRTUAL)

Attendants: Messrs. Cartafalsa, Cherico, S. Garner, Kern, Knapp, Monaghan, Moss, Nagle, Willert, and Mesdames Amadio, Billings, Bonnett, Caulk, B. Garner, Nichols, and Sage.

There were no members of the public present.

1. ROLL CALL: Eight members of the DELCORA Board of Directors were present constituting a quorum.
2. PLEDGE OF ALLEGIANCE: The Pledge of Allegiance was recited by all parties present.
3. MONTHLY FINANCIAL REVIEW: Mr. Mike Cherico, Chief Financial Officer, provided the Board with a written summary report of the October Interim Statements and highlighted items contained in the written report. Regarding Revenue and Expenses, Mr. Cherico stated that ten months into the year, we are still on track to hit the \$13 million budgeted for the reserve for replacing capital assets and we are about \$400,000 ahead of that. He noted that there were similar variances to last month. There was a negative revenue variance in wholesale customers due to lower flow but there were some positive revenue variances in tapping fees and interest income, so that net revenue is about \$500,000 ahead of budget. He also noted that there were some positive and negative variances in expenses because of the lower flow. Additionally, because of the lower flow, we expect a favorable variance in the Philadelphia treatment costs. As in the past months, chemicals, repairs and maintenance, and utilities are negative variances, so total expense variances of about \$75,000 gives us a net positive variance overall about \$435,000. Concerning the negative variance in chemicals, Mr. Knapp asked if the price of chlorine and polymer had leveled off or is it rising, and if the situation will be similar next year. Mr. Cherico responded that prices seem to be leveling off but there is an increase in the 2024 budget for chemicals which includes the carryover of the 2023 negative variance. Projections for next year are expected to be more accurate. Concerning cash generated, Mr. Cherico reported that there was an increase of about \$15 million on the cash balance since the end of October 2022 and about \$10 million of that was used for capital projects, so about \$25 million of cash was generated over the past twelve months. Mr. Cherico had no additional comments to his written report. The Committee had no other questions on the written report.

Regarding Residential Accounts Receivables, Mr. Shep Garner, Accounting & Customer Service Manager, reported that about \$789,000 was collected in October 2023 compared to about \$477,000 in October 2022, indicating a favorable difference of approximately \$311,000. Year-to-date collections are doing very well at about \$2.6 million higher than 2022. He stated that he anticipates the same variant for the next two months of collections. Mr. Garner had no additional comments to his written report. The Committee had no questions on the written report.

In response to a question raised by Ms. Nichols the other day about future borrowing, Mr. Willert stated that we will not have to borrow any more money this year or next year.

4. DISCUSSION OF 2024 BUDGET AND RECOMMENDATION FOR APPROVAL AT THE NOVEMBER BOARD MEETING: Mr. Cherico provided highlights of the 2024 budget, a draft of which was provided to all Board members. Mr. Cherico stated that there is an overall 3% rate increase but in some areas like retail, despite the 3% rate increase, net revenue will only be up about 2%. One of the reasons is the \$1.6 million spent for repairs made to the Marcus Hook system since 2011. At the time, it was decided to amortize that expense over twenty years so their rate would be higher than all of the other retail rates to make up for the cost of the improvements. For instance, in 2023, the retail rate for the other communities was \$7.47 per 1,000 gallons and Marcus Hook's rate was \$11.39 per 1,000 gallons, an almost \$4.00 difference. Marcus Hook paid back the \$1.6 million faster than the twenty years so that in 2024, the residents of Marcus Hook will pay a retail rate of \$7.69 per 1,000 gallons, the same as Parkside, Chester City, Chester Township, Upland, and Trainer. Mr. Cherico stated that for some of the other wholesale customers, like the authorities, their flow was lowered due to the recent lack of precipitation so despite the 3% rate increase, that total revenue is only up about 1%. However, that is offset by the wholesale industrial customers like Kimberly-Clark and Energy Transfer Partners (formerly Sunoco) whose flows are projected to increase, 10% and 16% respectively. So, overall, our total revenue from service charges is up a bit over 3.15% and we will also have an increase in interest income in 2024. Adding to that is the expected rise in residual waste revenue so that the total revenues will increase 3.78% from the 2023 budget to the 2024 budget.

Regarding 2024 expenses, Mr. Cherico stated that a new line item for the cost of the Long Term Control Plan was included in the budget in the amount of \$12 million which will eventually be used for capital needs for the Long Term Control Plan. In response to a question from Ms. Billings as to setting up a separate account for those funds, Mr. Cherico stated that a separate account will be set up next year and that \$1 million would be transferred to that account each month so the account could grow or be used as needed in the future. In summary, the revenue of approximately \$91.6 million minus the expenses of about \$85 million leaves about \$6.6 million to be used towards other capital projects as they arise, such as fixing pipes in the streets, projects at the plant, etc. Ms. Billings asked if we borrowed money in 2023. Mr. Cherico responded that as of the end of October, we borrowed \$12.1 million of our \$30 million loan facility. It was also discussed and noted that there would be no associated arbitrage penalties since that loan was not a tax free loan. The interest rate on that loan is 6%. Ms. Nichols asked for an explanation regarding the projections in rates and charges for the authorities. Using the Darby Creek Joint Authority as an example, Mr. Cherico responded that their budgeted flow was lowered by 1.25% so the 3.13% rate increase minus the 1.25% results in a 1.84% increase in total revenue. He also

mentioned that the I&I work done by the municipalities plus the lower flow in the past several months has contributed to the decreased costs to the authorities. If flow is higher than expected, then a true-up is done at the end of the year. At that time, all expenses and flow data is calculated and refunds are sent to the authorities for any overpayments. This does not affect residential users since they pay on the amount of water they actually use and not on flow data from rainfall. The true-up credits are applied to the second quarter invoice to the authorities after the yearly audit is completed and approved by the Board. Mr. Cherico had no additional comments. The Committee had no other questions on the 2024 Budget.

Following discussion, it was the consensus of the Committee to recommend Board approval of the 2024 Budget. This item will be placed on the agenda for the November 21st Board meeting.

5. LEITZELL & ECONOMIDIS, PC – APPROVAL AS AUDITOR FOR YEAR 2023 DUE TO PRELIMINARY WORK IN DECEMBER 2023 (fee: \$39,000.00).

Following discussion, it was the consensus of the Committee to recommend Board approval of the appointment of Leitzell & Economidis, PC as auditor for fiscal year 2023. This item will be placed on the agenda for the November 21st Board meeting.

ADJOURNMENT: It was moved by Mr. Nagle, seconded by Mr. Kern, and unanimously carried to adjourn the regular meeting at 3:50 p.m.