MINUTES

FINANCE COMMITTEE MEETING

JANUARY 10, 2024 (VIRTUAL)

Attendants: Messrs. Cherico, DiSantis, Garner, Kern, Martin, Moss, Mullen, Nagle, Schuster, Willert, and Mesdames Amadio, Billings, Bonnett, Caulk, B. Garner, and Nichols.

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. CHIEF FINANCIAL OFFICER REPORT: Mr. Cherico introduced himself as the Chief Financial Officer and stated that each month he will offer his report on the financial results for the previous month and year to date. Continuing, he provided the Board with a written summary report of the December Interim Statements and highlighted items contained in the written report. Regarding Revenue and Expenses, Mr. Cherico stated that about $13 million was budgeted for 2023 to go into our reserve for replacing capital assets. He noted that all of the final true-ups and final totals have not been done yet but we are expecting to be about $3 million ahead of the budgeted $13 million, close to $16 million going to the reserve for capital assets. He summarized some of the variances from the budget on the revenue side. The expected revenue from our wholesale customers should be about $3 million under budget. Despite all of the rain in December, the first eleven months of 2023 were relatively dry and flow was under budget. That will be trued-up before the audit so about $3 million will be a credit to the Eastern Authorities and to some of our other wholesale customers, such as Eddystone, Southern Delaware County Authority, and Lower Chichester. He reported that we are about $120,000 favorable on remote locations and almost $700,000 favorable on hauled waste revenue. There were $315,000 in tapping fees this year and interest income was about $1,840,000 ahead of budget. Interest rates went significantly higher during the year and investing our available funds generated a significant amount of interest income. For a few years, we had basically 0% earnings on our available funds but now we are up in the area of 5%. So, the total revenue is about $70,000 short; however, that is more than offset on the expense side, such as Philadelphia Treatment and Debt Service we didn’t borrow.

Mr. Cherico also noted that the tunnel project situation changed during the year and the planned borrowing of $25 million to $50 million when we were considering the project a year ago. However, through December, we have borrowed $12.1 million of that $30 million loan facility that we have outstanding, so we have a favorable variance on Debt Service. He also noted the higher than anticipated costs of Chemicals, Repairs & Maintenance, and Utilities. Mr. Cherico did point out that the favorable variance in Hauled Waste offsets the negative variance in the Chemicals and Utilities. He noted that due to the increased loading that causes the higher costs in the chemicals and utilities. Mr. DiSantis added that because generating more waste means more solids to process thus the need for more gas usage and more chemicals, especially polymer. Continuing, Mr. Cherico stated that other items that were budgeted but not utilized in 2023, such as legal, consulting, IT, and engineering items, resulted in a total of over $1 million in favorable variances, plus there is always a contingency included in the budget that was not spent so the expenses are favorable by over $3 million to give us a net variance of a bit over $3 million to be used for the capital plan.

Regarding Cash Generated, Ms. Billings asked if the $98 million cash generated in 2023 over the $82 million cash generated in 2022 plus the $3 million from the favorable revenue over expenses goes into the capital budget and why is it higher in 2023. Mr. Cherico responded that there are many things that go into the cash balance besides straight revenue and expenses. For example, we collected about $3 million on our customer balances in 2023 that reduced the accounts receivables but does not show up in the profit and loss because that collected cash was from a prior year. He noted that Mr. Garner will review the favorable cash collections during the year under his Customer Service Report. So, the cash balance increased about $16.6 million but about $6.8 million was used towards capital. That capital does not flow through the profit and loss statement so we actually generated close to $23 million for the year. Also, if accounts payable balances fluctuate or if there are some things paid this year that weren’t paid at the end of last year, these could also affect the Cash Generated amount. Ms. Billings remarked that the extra money generated for capital is then left as operating revenue or does it get transferred to a different account? Mr. Cherico responded that it is not in a separate account. It is in our overall cash balance.

Continuing his report review, Mr. Cherico stated that $12 million was budgeted in 2024 and put aside for future Long Term Control Plan (LTCP) costs. A separate account will be set up starting next month and the plan is to transfer $1 million per month into that account. Other capital needs will be paid out of other available funds. Also, by setting aside those funds now for the LTCP, we should be able to borrow less in the future when the need arises. Mr. Kern mentioned that in our long term projections, we were looking at the finances over a 10 year period of time, particularly when we have large capital projects coming up, the plan is to try and keep our rate increases at 3% or 4% per year. He also stated that when we look at the projections of when these capital projects need to be done, if we maintain a 3% or 4% increase over the next few years, extra cash will be generated early in the 10 year period but then we will be spending more money than we will be taking in during the last five to six years. Mr. Kern said we are essentially keeping our rates at a 3% to 4% level long term but, at the same time, our cash flow right now is positive but in a few years it is going to be negative for a couple of years and that is planned. This is the beginning of the 10 Year Financial Plan wherein we worked out where we want to be financially at the end of these ten years. The expectation is to be in a good financial position at the end of these ten years. Ms. Nichols asked if there was a consideration for an alternative long term spending plan or budget created for the capital projects that we knew we would have to undertake for the LTCP, such as reducing the outflows in Chester, if the tunnel was not built. Mr. Willert stated that we are still working on the Long Term Control Plan and what needs to be done besides the tunnel and how much money we might have to put perhaps $100 million towards it. Mr. DiSantis added that what we have is multiple alternatives that were being discussed with the EPA and that we honed in on one and the total cost for that over time is more like $200 million. He mentioned the discussion yesterday at the Operations and Engineering Committee meeting about updating the LTCP and having to change direction. He stated that we have received good feedback from the EPA on the plan that we are proposing and noted again that it will cost about $200 million over the next ten years for the LTCP. Mr. Kern stated that there are quite a few other capital projects, besides the LTCP, that also need funding over the next ten years in the Eastern Service Area, such as the rehabilitation of the pumps at the pump stations that are over 50 years old. Mr. Cherico stated that we are building up the cash balances to be used for those future capital expenditures to limit the amount of borrowing that would be necessary. Mr. Kern added that is so we can maintain a constant single digit rate increase of 3% or 4% for the next ten years. Mr. Cherico had no additional comments to the written report. The Committee had no other questions or comments on the written report.

Mr. Garner introduced himself as the Accounting and Customer Service Manager and welcomed the new Board members. Regarding Residential Accounts Receivables, Mr. Garner reported that about $866,000 was collected in December 2023 compared to about $257,000 in December 2022, indicating a favorable difference of approximately $608,000. Year-to-date collections are up $3 million compared to 2022. He noted that starting in the middle of 2020, and during 2021 and 2022, we were not doing any delinquency postings or shut-offs; however, in 2023 the Board decided to start the delinquency process again. That is the major reason for the higher collections in 2023 compared to 2022 and we still expect to collect decently in 2024. An example of a large collection in 2023 is PF Hillside, a large landlord in Chester, who has been delinquent since 2020. Mr. Garner commended the hard work of Tracy Harris, the Senior Collections Specialist, and the other members of the Customer Service Department, in collecting the $280,000 in arrears from that customer. Mr. Kern and Mr. Willert thanked Tracey and the collections team for the great job and for their efforts.

Ms. Nichols asked if Prospect was still in good standing with us since they've been in the news lately for being behind on their bills with other municipalities. Mr. Garner stated that, yes, they are current. He also mentioned that with PF Hillside, it was decided to turn them over to collections but, before that was done, customer service decided to give it one more try. They were able to contact the new owner and make some arrangements, and then they sent us the $280,000 check. Ms. Nichols asked if the customer assistance program is still ongoing or have we ended those efforts. Mr. Garner stated that during that period, we had two customer assistance programs; one was a matching program and one was the pandemic program which is starting to die out. He will be creating another program that would benefit some of the rate payers and will present that to the Board in a month or two. Mr. Garner had no additional comments to the written report. The Committee had no other questions or comments on the written report.

ADJOURNMENT: It was moved by Mr. Kern, seconded by Mr. Moss, and unanimously carried to adjourn the regular meeting at 3:54 p.m.