



MEMORANDUM PORTLAND WATER DISTRICT

TO: Board of Trustees

FROM: Carrie Cote

DATE: July 5, 2023

RE: **Workshop Meeting – Monday, July 10, 2023**

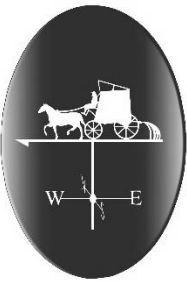
There will be a Workshop Meeting of the Board of Trustees of the Portland Water District on Monday, July 10, 2023. The meeting will begin at 6:30 p.m. in the Nixon Training Center at the general offices of the District located at 225 Douglass Street, Portland, Maine.

The Workshop will be preceded by meetings of the following Board Committees:

<u>Committee</u>	<u>Room / Location</u>	<u>Time</u>
Pension	General Manager's Conference Room	5:15 p.m.
Administration & Finance	Monie Conference Room	5:30 p.m.
Operations	EOC 2 nd Floor	5:30 p.m.
Planning	Nixon Training Center	5:30 p.m.

AGENDA – WORKSHOP

- 2024 Budget Parameters**
David Kane, Director of Administration, and Seth Garrison, General Manager, will provide a high-level overview for developing the 2024 budget.
- Other Business**
- Adjourn**



MEMORANDUM PORTLAND WATER DISTRICT

TO: Pension Committee / Board of Trustees

FROM: Mary Demers, Director of Employee Services

DATE: July 5, 2023

RE: **Pension Committee Meeting – July 10, 2023**

A meeting of the Pension Committee of the Portland Water District Board of Trustees is scheduled for Monday, July 10, 2023, in the General Manager's Conference Room at the District, 225 Douglass Street, Portland, Maine. The meeting is scheduled to start at 5:15 p.m.

AGENDA

- 1. Approval of Pension Distributions**
Staff will present a request to approve benefits for one retiree.
- 2. Other Business**



MEMORANDUM PORTLAND WATER DISTRICT

TO: Administration and Finance Committee / Board of Trustees

FROM: David Kane, Director of Administration
Mary Demers, Director of Employee Services

DATE: July 5, 2023

RE: **Administration and Finance Committee Meeting – July 10, 2023**

A meeting of the Administration and Finance Committee of the Portland Water District Board of Trustees will be held on Monday, July 10, 2023. The meeting will begin at 5:30 p.m. in the Monie Room of the District, 225 Douglass Street, Portland, Maine.

AGENDA

1. **Water Bond Rating**

Mr. Joseph Cuetara, the District's Financial Advisor, will provide an update on the District's bond rating. (See attached memo)

2. **Other Business**



To: David M. Kane, Treasurer
James M. Saffian, Esq.
Fr: Joseph P Cuetara, SVP
Date: January 31, 2023
Re: PWD Ratings

We have been selected to provide our Municipal Advisory services for the Portland Water District (“PWD” or the “District”) since 2007 and are honored to continue this engagement today. On behalf of the Trustees you had asked me to provide insight as to “... how to achieve a AAA rating” from Moody’s Investors Service (“Moody’s”) and/or from S&P Global Ratings (“S&P”). There is a difference with a distinction vis-à-vis the District’s revenue sources to pay for associated debt service between Water Bonds and Sewer Bonds, as discussed below.

The Water System Debt (Water Bonds)

The District owns, operates and maintains water supply facilities (the “Water System”) in order to provide water to the inhabitants of the Member Municipalities and Non-Member Municipalities (defined by reference, herein). The debt of the District with respect to the Water System (“Water Bonds”) is a direct obligation of the District and not the debt or obligation of Member Municipalities or Non-Member Municipalities. However, pursuant to Section 6103 of the Act, Water System Debt is a pro-rata, several but not joint, contingent obligation of the respective Member Municipality, as further discussed herein.

The Wastewater System Debt (Sewer Bonds)

The District provides for sewer interception and treatment services to its Participating Municipalities (defined by reference, herein). Participating Municipalities served by the District may own and maintain collector and/or storm drain lines or Collector Lines and contract with the District for wastewater delivered through the District’s Interceptor System from Collector Lines to the District’s treatment facilities Treatment System. The District owns and operates a sewer interceptor system, all pumping stations within the municipality served for treatment of wastewater and a variety of treatment plants for sewage delivered to the plant. The District allocates the costs for provided services among the Participating Municipalities whereby the respective municipality adopts sewer user fees for the use of Collector Lines with the District’s allocated costs for the Interceptor System and Treatment System (including associated debt service for Wastewater System Debt”) and establishes monthly fees, with the District serving as billing agent. Municipalities served for treatment of wastewater are responsible for the debt service for Wastewater System Debt required to finance the District’s treatment plants (or portion thereof) serving that municipality. Sewer Bonds are Wastewater System Debt which is an overlapping debt obligation of the Participating Municipality.

Current Ratings

In summary, PWD’s Water System Debt’s rating is entirely based on PWD’s Water System’s operations; PWD’s Wastewater System Debt rating is entirely based on the “underlying” rating(s) of the Participating Municipality (e.g., for Portland, Aa1/AAA; for Cape Elizabeth, Aa1/AAA; for Windham, Aa2/AA).

The following table displays PWD’s Water Bonds’ ratings since our tenure started in 2007, and the progress that we have made thereon:

PWD (Wtr)	09/01/07	A3/A-
PWD (Wtr)	11/04/13	A1/A+
PWD (Wtr)	06/30/14	A1/A+
PWD (Wtr)	06/25/15	A1/A+
PWD (Wtr)	06/30/16	Aa3/AA
PWD (Wtr)	08/01/17	Aa3/AA
PWD (Wtr)	08/01/18	Aa3/AA
PWD (Wtr)	08/01/19	Aa3/AA
PWD (Wtr)	07/30/20	Aa3/AA
PWD (Wtr)	07/29/21	Aa3/AA
PWD (Wtr)	08/01/22	Aa3/AA

Section 6103

Title 35-A, Section 6103 of the Maine Revised Statutes, as amended (“Section 6103”) states that “If there is a default in the payment of the principal of, or interest on, a note, bond or other evidence of indebtedness issued by a water district created by special Act of the Legislature, the trustees, directors or managing board of the district shall, unless the default is cured, issue their warrant immediately to those portions of the municipality or municipalities which constitute the district ...” Within 30 days after the date fixed by the municipalities on which their *next* taxes are due (thus, a significant “timing issue” of up to 18 months before cure), the treasurer of the municipality pays the tax assessed to the treasurer of the District. Such assessment is allocated, pro-rata, severally but not jointly, to each Member Municipality based upon 100% of its respective equalized State valuation. The District’s Water System Debt is a wholly-separate, pro-rata, joint not several contingent obligation of the respective Member Municipality.

<u>Member Municipality</u>	<u>Ratings</u>	<u>2022 Eq State Val</u>	<u>% Share</u>	<u>2022 Contingency</u>
Portland	Aa1/AAA	\$12,095,550,000	31.54%	\$18,548,653
So. Port.	Aaa/AAA	5,183,800,000	13.52%	7,949,412
Scarborough	Aa3/AA+	4,988,750,000	13.01%	7,650,301
Falmouth	Aaa/AAA	3,069,300,000	8.00%	4,706,804
Windham	Aa2/AA	2,608,150,000	6.80%	3,999,625
Westbrook	Aa3/AA	2,600,450,000	6.78%	3,987,817
Cape Eliz.	Aa1/AAA	2,598,150,000	6.78%	3,984,290
Gorham	Aa2/AA+	2,280,050,000	5.95%	3,496,481
Cumberland	Aa2/AA+	1,614,950,000	4.21%	2,476,543
Raymond	NR/AAA	<u>1,307,150,000</u>	<u>3.41%</u>	<u>2,004,528</u>
Member Totals		\$38,346,300,000	100.00%	\$58,804,455



SOURCE: PWD 2021 AFCR, Note 3, page 58.
<https://emma.msrb.org/MarketActivity/ContinuingDisclosureDetails/P21203130>;
https://www.maine.gov/revenue/sites/maine.gov.revenue/files/inline-files/2022_state_valuation.pdf, page 5.

<u>Moody's</u>		<u>S&P</u>	
% Aaa	21.52%	% AAA	63.25%
% Aa1	38.32%	% AA+	23.17%
% Aa2	16.96%	% AA	13.58%
% Aa3	19.79%		
% NR	3.41%		

While PWD’s Water System obligations are independent of a particular Member Municipality there are linkages to its Member Municipalities including: common boundaries, a common economic environment, common demographics and income levels. As a result of these credit linkages, the credit quality of a

municipally-owned utility and the Member Municipalities ability to meet its general obligations are important considerations in the rating assigned to a municipally-owned utility. Therefore, shared linked credit characteristics between a municipality and a municipally-owned utility often affect the metrics used to assess scorecard factors. *However, even based on these linkages, a municipally-owned utility's revenue rating is typically not higher than two notches above the issuer or general obligation rating of the participating local government(s).* [Attribution to Moody's US Municipal Revenue Debt Methodology, April 13, 2022]

Additional Security

We had been frustrated by credit rating agencies continued criticism that quasi-municipal utilities in Maine issue their debt with "archaic" or "weak legal provisions". In so doing, they contended, the issuers do not provide adequate protection to bondholders. This, despite strong financial operations and positive demographics.

Their position is that the legal provisions of a public utility revenue bond form the backbone of its security. When a municipality assigns its General Obligation pledge to a bond, it has promised to use any revenues or resources at its disposal to pay debt service; BUT a utility revenue bond enjoys no such open-ended pledge, making the legal edifice of the bond critical to bondholder security. Most commonly, the pledge for municipal utility revenue bonds is a lien on the net revenues of the system.

Utilities abide by many different types of covenants. Typically, the most important are a rate covenant, an additional bonds test, a debt service reserve fund as well as maintaining adequate cash available to pay both operations and debt service. Weak or non-existent covenants allow the utility to operate on a thin margin or even at a net loss, incur a lot of leverage, or maintain inadequate cash, each of which may be detrimental to bondholders. Covenants specify the minimum factors management must contractually abide by. Utilities frequently exceed the minimum and many ratings represent the expectation of performance at levels that exceed covenants. [*ibid*]

The following are typical covenants that provide additional security to bondholders:

- The series of debt will be a pledge of Net Revenues
- Net Revenues for each fiscal year shall equal or exceed 125% of annual debt service requirements ("Debt Service Coverage").
- Provision that Debt Service Coverage must be attained with the inclusion of new bonds before the issuance of additional bonds.
- A Debt Service Reserve Fund, pledged to the series of debt of an amount equal to the lesser of (1) the maximum amount of annual debt service payable in any current or future fiscal year or other appropriate 12-month period on the Bonds; (2) 125 % of the average annual debt service payable with respect to the Bonds; or (3) 10% of the original proceeds of the bonds (also called a *4R Fund* or "reasonably required reserve or replacement" fund)

Master Trust or Charter?

The structure typically involves a Master Trust Indenture (the "Master Trust") to encompass the current series and certain future financings of the borrower, as long as bonds under the Master Trust are outstanding; and a Series Indenture (the "Series Indenture") as the operative vehicle for each "Indentured" issue.

OR, I proposed that these, and other, amendments to the District's Charter could alleviate the costs, potential conflicts (i.e., vis-à-vis other future debt NOT issued under a Master Trust) and

repetition of documents for a Series Indenture. The operative vehicle would be the individual Bond Order as a part of its authorization.

I opined that a difference with a distinction is that a Master Trust is a “contractual agreement” whereas PWD’s Charter is “statutory” and, arguably, of stronger authority. Our proposed amendments to the District’s Charter include:

To Section 9:

Bonds or notes will be a pledge of Net Revenues pursuant to section 11 subsection (D).

Net Revenues for each fiscal year shall equal or exceed 125% of annual debt service requirements (“Debt Service Coverage”)

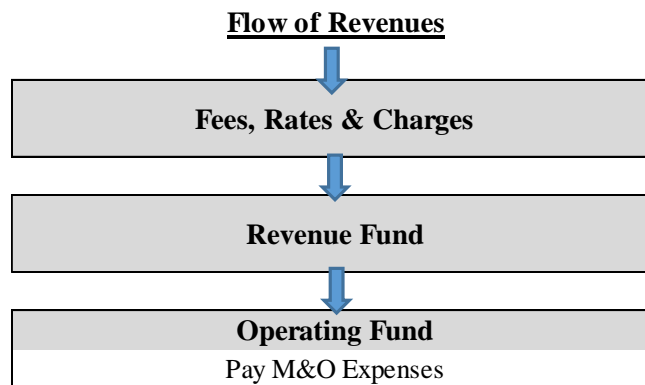
Provision that Debt Service Coverage must be attained with the inclusion of new bonds before the issuance of additional bonds (“Additional Bonds Test”)

Certain series’ of Water System bonds or notes may establish a Debt Service Reserve Fund, pledged to the series of bonds or notes for that particular series of bonds or notes pursuant to section 11 subsection

To Section 11:

Water rates; Apportionment of Annual Revenue

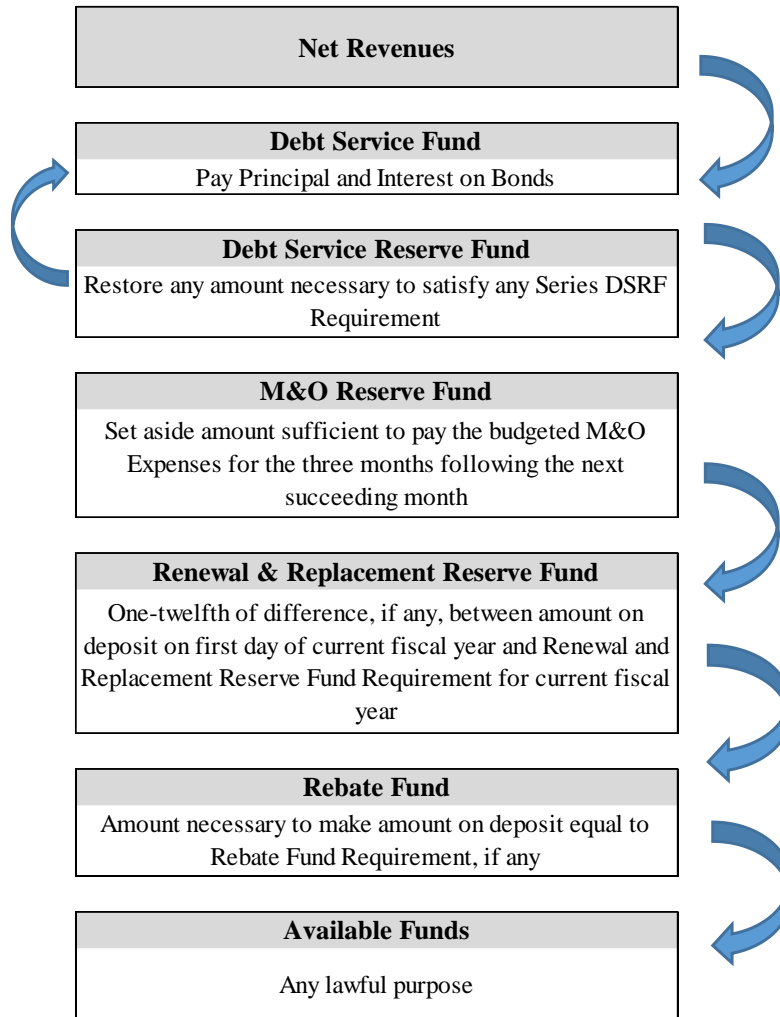
D. “Net Revenues” shall mean, with respect to a period of time, an amount equal to all Revenues accrued in such period in accordance with generally accepted accounting principles minus the O&M Expenses incurred or payable during such period in accordance with generally accepted accounting principles, as follows:



F. At the pleasure of the Trustees, establishment of a Debt Service Reserve Fund for any individual series’ of bonds or notes, if established, of an amount equal to the lesser of (1) the maximum amount of annual debt service payable in any current or future fiscal year or other appropriate 12-month period on the series of Bonds; (2) 125 % of the average annual debt service payable with respect to the series of Bonds; or (3) 10% of the original proceeds of the series of Bonds. The terms, conditions and cures, if any, would be contained in that series’ Bond Order.

Should a Debt Service Reserve Fund be established for a series’ of bonds or notes the following is the flow of funds:

Flow of Funds



E. "Financing costs" shall include:

- (1) Payment of unfunded capital outlay: namely, capital outlay items the cost of which is not to be funded or paid from the proceeds of a government grant or other donation; 9
- (2) Payment of interest: namely, interest due and payable in such year on indebtedness created or assumed by the District in providing a Water System, exclusive of interest on temporary notes in anticipation of assessments;
- (3) Payment of principal: namely, principal due and payable in such year on indebtedness created or assumed by the District in providing a Water System and not to be refunded and for the payment of which indebtedness funds are not in the judgment of the trustees otherwise available; and

F. "Operating and Maintenance costs" shall include:

- (1) Operating expenses: namely, the current expenses of operating the Water System, and including interest on notes issued in anticipation of assessments;
- (2) Deficit: namely, any deficit incurred in the operation of said Water System outstanding at the end of the prior calendar year for the payment of which funds are not, or in the judgment of the trustees will not be, available in the calendar year;
- (3) Current expenses: namely, the current expenses of repairing and maintaining the Water System, including renewals and replacements and all other expenses not otherwise specifically provided herein.

Comparisons of Comments at Dates of Rating Changes

The following observations are extracted from the respective Rating Reports issued for Water Bond sales as ratings changed.

<u>June 5, 2015</u>	
<u>Moody's (A1)</u>	<u>S&P (A+)</u>
<ul style="list-style-type: none"> + essential service + satisfactory reserves - "weak" legal provisions - no Add't'l Bonds test - no DSRF - go up - stronger legal provisions - "available" revenues 	<ul style="list-style-type: none"> + good service area + historically strong DSC - "... until exempt from MPUC" + statute requires 1.25x, offset lack of indenture + 352 days cash on hand + must maintain "good liquidity"
<u>June 1, 2016</u>	
<u>Moody's (Aa3)</u>	<u>S&P (AA)</u>
<ul style="list-style-type: none"> + now deregulated MPUC + exclusive franchise - "weak" legal provisions + 325 days cash on hand 	<ul style="list-style-type: none"> - no DSRF pledge - no pledge of "Net Revenues" + formal Policy 1.25x DSC + formal Policy 1.25x Add't'l Bonds Test + conservative coverage partially offsets risk + good-strong FMA + 468 days cash on hand
<u>July 7, 2022</u>	
<u>Moody's (Aa3)</u>	<u>S&P (AA)</u>
<ul style="list-style-type: none"> + sound DSC + manageable debt + strong liquidity - "weak" security provisions - needs stronger legal provisions + 436 days cash on hand - "available" revenues + formal Policy 1.25x DSC + formal Policy 1.25x Add't'l Bonds Test 	<ul style="list-style-type: none"> + bond provisions credit neutral - no Add't'l Bonds Test is permissive - growth or EPA demands could cause dilution (ESG) + rates are currently affordable - debt service will be increasing in the near term if outperforms current DSC projections, while sustaining + robust liquidity, could raise the rating

NOTE: "+" indicates positive observations; "-" indicates negative observations

Add't'l Moody's verbal discussion with Christopher Yared, Analyst:

- ✓ Even though Charter is statutory Committee would balk at previously unseen security
- ✓ Committee would favor an Indenture.
- ✓ A municipally-owned utility's revenue rating is typically not higher than two notches above the issuer or general obligation rating of the parent government (see Section 6103, herein).
 - ✓ Even with Indenture could not currently expect any higher than Aa2, at this time.

Add't'l S&P verbal discussion with Scott D. Garrigan, Director – Lead Analyst:

- ✓ At the AA rating, a DSRF is not as much as a rating driver as a substantially lower rated (e.g., BBB).
- ✓ PWD's positive >365 days cash; historical rate increases; demographics; historical DSC >1.25x led to the AA.
- ✓ At PWD's Water Bonds current rating, the Committee is agnostic as to Policy requirements.
- ✓ An Indenture would not encourage an upgrade.

In summary, neither agency would encourage that the above suggestions or amendments would result in a significant rating upgrade and that a AAA is virtually unattainable at this time.

However ...

Following this discussion is a comparison of ten Water Utility Systems that Moody's rates as "Aaa". These provide metrics that (the "Aaa Matrices"), if adopted or are embraced as PWD's policy, would enhance the credit quality of the PWD's Water Bonds as well as provide guidance for continued strong management. Each of which could provide stimuli to consider an increase in the District's bond rating(s).

After review and consideration of the Aaa Matrices the District's staff has identified items that would emulate some of the items. These are:

- To update PWD's Water System Master Plan to encompass at least a 20-year horizon.
- To expand PWD's Water System CIP out for more years. This process is currently being implemented and is scheduled to be completed by calendar year 2024.
- The Water System's Master Plan and CIP should also include "pay-as-you-go in lieu of bond issues", for future capital expenditure financing. This should also highlight the distinction(s) between the two methods of capitalizing assets with a five or ten year tracking of past and pro-forma (five year?) planned expenditures.
- To seek "Waiver Assurance". This includes obtaining a sense from the MPUC on pulling the waiver; and to formalize this in writing.
- Consider amending our Water System rate-making policy to approve multi-year increases. If in agreement, then this should be implemented;

Also, our additional suggestions:

- On page 25 of the 2021 AFCR, "Debt Service Coverage" "allows" a depreciation adjustment that reconciles with the table on page 35 of the 2022 Water Bonds OS. Could this be footnoted on page 25 to explain the difference with a distinction? Also, you may consider adding the tables (on page 34 and 35 of the 2022 Water Bonds OS), along with appropriate footnotes for at least a five year (preferably 10 year) history as part of "Statistics – Financial Trends", or some other appropriate space, in your AFCR's STATISTICS section?

While no assurances of higher investment grade ratings for future issues can be given, we propose that, in our experience, these innovations stand a greater likelihood of achieving improved rating(s) at a minimum of cost and inconvenience to a borrower or the District.

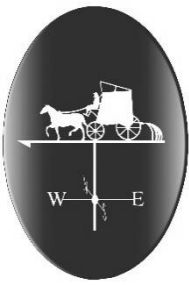
Appendix: US Municipal Utility Revenue Debt Scorecard

EXHIBIT 6

	Aaa	Aa	A	Baa	Ba	B and Below	
Numerical score	0.5 to 1.5	1.5 to 2.5	2.5 to 3.5	3.5 to 4.5	4.5 to 5.5	5.5 to 6.5	
System Characteristics (30%)							
Asset Condition (10%)	Net Fixed Assets/Annual Depreciation: > 75 years	75 years ≥ n > 25 years	25 years ≥ n > 12 years	12 years ≥ n > 9 years	9 Years ≥ n > 6 Years	≤ 6 Years	
System Size (7.5%)	Water and/or Sewer/ Solid Waste:	O&M > \$65M	\$65M ≥ O&M > \$30M	\$30M ≥ O&M > \$10M	\$10M ≥ O&M > \$3M	\$3M ≥ O&M > \$1M	O&M ≤ \$1M
	Stormwater:	O&M > \$30M	\$30M ≥ O&M > \$15M	\$15M ≥ O&M > \$8M	\$8M ≥ O&M > \$2M	\$2M ≥ O&M > \$750K	O&M ≤ \$750K
	Gas or Electric:	O&M > \$100M	\$100M ≥ O&M > \$50M	\$50M ≥ O&M > \$20M	\$20M ≥ O&M > \$8M	\$8M ≥ O&M > \$3M	O&M ≤ \$3M
Service Area Wealth (12.5%)	> 150% of US median	150% ≥ US median > 90%	90% ≥ US median > 75%	75% ≥ US median > 50%	50% ≥ US median > 40%	≤ 40% of US median	
Financial Strength (40%)							
Annual Debt Service Coverage (15%)	> 2.00x	2.00x ≥ n > 1.70x	1.70x ≥ n > 1.25x	1.25x ≥ n > 1.00x	1.00x ≥ n > 0.70x	≤ 0.70x	
Days Cash on Hand (15%)	> 250 Days	250 Days ≥ n > 150 Days	150 Days ≥ n > 35 Days	35 Days ≥ n > 15 Days	15 Days ≥ n > 7 Days	≤ 7 Days	
Debt to Operating Revenues (10%)	< 2.00x	2.00x < n ≤ 4.00x	4.00x < n ≤ 7.00x	7.00x < n ≤ 8.00x	8.00x < n ≤ 9.00x	≥ 9.00x	
Management (20%)							
Rate Management (10%)	Excellent rate-setting record; no material political, practical, or regulatory limits on rate increases	Strong rate-setting record; little political, practical, or regulatory limits on rate increases	Average rate-setting record; some political, practical, or regulatory limits on rate increases	Adequate rate-setting record; political, practical, or regulatory impediments place material limits on rate increases	Below average rate-setting record; political, practical, or regulatory impediments place substantial limits on rate increases	Record of insufficiently adjusting rates; political, practical, or regulatory obstacles prevent implementation of necessary rate increases	
Regulatory Compliance and Capital Planning (10%)	Fully compliant OR proactively addressing compliance issues; Maintains sophisticated and manageable Capital Improvement Plan that addresses more than a 10-year period	Actively addressing minor compliance issues; Maintains comprehensive and manageable 10-year Capital Improvement Plan	Moderate violations with adopted plan to address issues; Maintains manageable 5-year Capital Improvement Plan	Significant compliance violations with limited solutions adopted; Maintains single year Capital Improvement Plan	Not fully addressing compliance issues; Limited or weak capital planning	Not addressing compliance issues; No capital planning	
Legal Provisions (10%)							
Rate Covenant (5%)	> 1.30x	1.30x ≥ n > 1.20x	1.20x ≥ n > 1.10x	1.10x ≥ n > 1.00x		≤ 1.00x ¹⁴	
Debt Service Reserve Requirement (5%)	DSRF funded at MADS	DSRF funded at lesser of standard 3-prong test	DSRF funded at less than 3-prong test OR springing DSRF	NO explicit DSRF; OR funded with speculative grade surety ¹⁵			

Source: Moody's Investors Service

¹⁴ Scores as a Ba.¹⁵ Scores as a Baa.



MEMORANDUM PORTLAND WATER DISTRICT

TO: Operations Committee / Board of Trustees

FROM: Scott Firmin, Director of Wastewater Services
James Wallace, Director of Water Services

DATE: July 5, 2023

RE: **Operations Committee Meeting – July 10, 2023**

A meeting of the Operations Committee of the Portland Water District Board of Trustees will be held on Monday, July 10, 2023, beginning at 5:30 p.m., in the Emergency Operations Center (EOC) Room of the District, 225 Douglass Street, Portland, Maine.

AGENDA

- 1. Wastewater Facility Permits – Operations and Compliance Review**
Staff will facilitate a discussion about the operational requirements in effluent permits, compliance expectations, and opportunities for continued improvement.
- 2. Other Business**



MEMORANDUM PORTLAND WATER DISTRICT

TO: Planning Committee / Board of Trustees

FROM: Christopher Crovo, P.E., Director of Asset Management and Planning

DATE: July 5, 2023

RE: **Planning Committee Meeting – July 10, 2023**

A meeting of the Planning Committee of the Portland Water District Board of Trustees will be held on Monday, July 10, 2023, at 5:30 p.m. in the Nixon Room of the District, 225 Douglass Street, Portland, Maine.

AGENDA

1. Lead Copper Program Update

Staff will provide an update regarding a recent application to the Maine Drinking Water Program's State Revolving Loan Fund for mitigating lead from the water distribution system.

2. Updates:

- **Sebago Clean Waters**
- **Munjoy Hill Reservoir**

3. Other Business