

PENNICHUCK WATER SPECIAL COMMITTEE

MAY 3, 2023

A meeting of the Pennichuck Water Special Committee was held Wednesday, May 3, 2023, at 7:00 p.m. in the Aldermanic Chamber.

Let's start the meeting by taking a roll call attendance.

The roll call was taken with 5 members of the Board of Aldermen present: Alderman Patricia Klee, Alderman-at-Large Michael B. O'Brien, Sr., Alderman Richard A. Dowd, Alderman Thomas Lopez, and Alderman-at-Large Melbourne Moran, Jr.

Also in Attendance:

- Alderwoman-at-Large Gloria Timmons
- Alderman Derek Thibeault
- Alderman-at-Large Ben Clemons
- Alderman Alex Comeau
- Mayor Donchess
- Steve Bolton, Corporation Counsel
- Larry Goodhue, CEO, Pennichuck
- Don Ware, COO, Pennichuck
- Thomas J. Leonard, Director, Pennichuck Corporation
- John Boisvert, Chief Engineer
- Chris Countie, Director of Water Supply and Community Water Systems
- George Torres , Chief Financial Officer

PUBLIC COMMENT - None

COMMUNICATIONS - None

UNFINISHED BUSINESS - None

NEW BUSINESS – RESOLUTIONS

R-23-109

Endorsers: Alderman Patricia Klee
Alderman Richard A. Dowd
Alderman Thomas Lopez
Alderman-at-Large Lori Wilshire

AUTHORIZING PENNICHUCK CORPORATION AND PENNICHUCK WATER WORKS, INC. TO RENEW ITS FIXED ASSET LINE OF CREDIT WITH TD BANK, N.A.

MOTION BY ALDERMAN LOPEZ TO RECOMMEND FINAL PASSAGE

ON THE QUESTION

Larry Goodhue, CEO

We've got a number of members of our team with us tonight. With me to my left is George Torres our CFO. To my right two seats is our Chairman of the Board Jay Leonard, and in attendance in the audience is our Chief Engineer John Boisvert, and our Director of Water Supply and Community Water Systems is Chris Countie. We're all here so we can answer any questions you might have. With regard to this Resolution, I'm going to turn the microphone over to Mr. Torres so he can describe what it is we're asking for.

Chairman Klee

Thank you.

George Torres, CFO/Corporate Controller/Treasurer

I have so many titles sometimes I forget them so I apologize. So what we're looking for today is through the Committee the City's approval on refinancing that the company is undertaking. All three of them are pretty standard for us. Two of

them are what are known as FALOC or Fixed Asset Line Of Credit and those are the facilities that the company uses at its PWW and PEU subsidiaries to finance its capital projects in any given year. Typically what happens specifically at PWW is a \$12 million facility has been in place, I believe, since 2013 I think - somewhere around there. So it's been a while.

The renewal is a two-year renewal. Unfortunately, that's the extent of the renewal that TD Bank is willing to go with Pennichuck. They're standard renewal, I believe, is one year but through a negotiation been able to get a two-year facility in place with them. It's been a two-year facility for a number of years now. It's pretty identical to the facility it replaces. The only difference is the underlying mechanism that was used to calculate the average interest rate on that facility was formally LIBOR plus I believe 1.75. It's now being placed by the SOFR rate. Don't ask me what the acronym is. I don't remember what the acronym is called but basically it's identical in terms and for all practical purposes and rate in comparison to the LIBOR it replaces.

As I mentioned earlier, we use it at the Pennichuck Water Works facility to finance its capital projects in any given year. On an annual basis, it has a clean out provision at PWW. So the way that works is by April 30th of this successive year, PWW is required to clean out that facility to zero it out. So whatever the expenditures were in that particular year to finance the given projects, we're required by the structure of that line of credit to clean it out in the successive year by April 30th. The way Pennichuck does that or PWW does that is through an annual bonding mechanism. PWW annually goes through an annual bonding process and the par amount of the bond at the very least mirrors what the clean out will be for that FALOC. So it insures that we have enough funds out of the bonding event to clean out that PWW FALOC and then the cycle starts all over again. So it's basically something that we've been using since I've been with the company. It's pretty standard so there really are no changes. The covenants are the same for PWW. The only thing we're looking for is renewal on the next. This one expires - the current existing one expires June 30th of this year. So obviously we'd like to get that in place beforehand before the expiration because that's what we'll be using to finance PWW's 2023 projects and so forth. That's for PWW.

For PEU, we're also looking for approval on their version of a FALOC or a Fixed Asset Line of Credit. That facility is a \$4 million facility. That is a 3-year agreement and that's with an entity called CoBank. It's what's known as a GSE.

Chairman Klee

I think that's in the next Resolution.

George Torres, CFO/Corporate Controller/Treasurer

Oh that's in the next one, sorry.

Chairman Klee

So we'll hold off on that one. Are there any questions?

I just have one quick question. So when you say that you clean out the facility as of 4/30 that means that this one expires on June 30th. That means that it's cleaned out so to speak?

George Torres, CFO/Corporate Controller/Treasurer

Yup. It was cleaned out as of April 26th.

Chairman Klee

Okay. And this is a typical basic rate?

George Torres, CFO/Corporate Controller/Treasurer

Yeah. Everything is identical to the one it replaces. Even the covenants are the same so.

Chairman Klee

Thank you. Any questions?

George Torres, CFO/Corporate Controller/Treasurer

The one change Larry asked me to bring up is the reason for the change from LIBOR to SOFR. That was something that is being forced upon. LIBOR as a benchmark is going away so it's not really an option for us or for the bank to continue using LIBOR. So SOFR is the more up-to-date version of the mechanism that's being used. Again, even the rate is very similar. Really that's the only other change of note within the facility.

Chairman Klee

Thank you, I appreciate that. Again, any questions? Seeing no question, I don't believe we have to do a roll call on this.

MOTION CARRIED

Chairman Klee

Mr. Clerk?

Alderman Lopez

I just want to add for the record the Mayor just arrived.

R-23-110

Endorsers: Alderman Patricia Klee
Alderman Richard A. Dowd
Alderman-at-Large Lori Wilshire

AUTHORIZING PENNICHUCK CORPORATION AND PENNICHUCK EAST UTILITY, INC. TO ENTER INTO A TERM LOAN AND RENEW A FIXED ASSET LINE OF CREDIT WITH COBANK, ACB

MOTION BY ALDERMAN LOPEZ TO RECOMMEND FINAL PASSAGE

ON THE QUESTION

Chairman Klee

Mr. Boisvert, I assume you're going to do this?

John Boisvert, Chief Engineer

You assume correctly. Okay, so for PEU. PEU is the utility, a little bit smaller than PWW, but they also have a FALOC which is a fixed asset line of credit and it's also the facility that they use to fund their capital expenditures on an annual basis. A couple differences with the PEU FALOC. The PEU FALOC is financed through an entity called "CoBank" based out of Colorado. They're known as what is called a "GSE" which is a government sponsored entity. CoBank has been a really outside of SRF and drinking water/ground water or trust funds. It's really the only other entity that's able and willing to loan to PEU just because of PEU's sheer size. PEU is much smaller than PWW so there are challenges trying to get outside financing sources other than those I just mentioned.

So with this facility, this is a \$4 million facility. The one difference is the facility prior to this, the one that replaces was a \$3 million. This one now is going to be a \$4 million facility, three years, and similar to TD Bank. The underlying calculation of the rate is going to be based upon SOFR not LIBOR because again, similar to TD that benchmark is being replaced by the SOFR. So CoBank is also applicable in this instance. The reason we're going from a \$3 million to a \$4 million facility, a couple of things. One is you could say it's a little bit of hangover from COVID. There are a number of projects that have been either postponed or delayed for a number of reasons whether they are due to ability for us to attain the actual materials for any given project or inflationary pressures as well. So we did request, and I believe the term sheet was included in your packet, and receive a term sheet for a change from \$3 million to \$4 million. Whether or not that will remain in place in the foreseeable future is really dependent on what PEU's needs will be going forward. But looking at the projects that are going to be undertaken in the PEU system for the foreseeable future, we thought it did warrant moving from a \$3 million to a \$4 million facility.

Everything within that facility is identical to the one it replaces. The current one that we're on expires September 30th, I believe, of this year. This one will replace it and go for another three years. So that one will be expiring in September of 2026. Again, it will function the same way as it does with PWW. It's a mechanism to fund any given years capital expenditures. The only difference with PWW is it doesn't have an annual clean out provision. We actually clean it out on

our own volition. There is no really provision in there that forces us to do it but as part of the QC PAC mechanism that PEU is a part of, any given years projects have gone used and useful, we clean it out in the subsequent year and then it's available to us to finance for any projects in the following year. So it kind of functions similarly in PWW in every other way. The covenants are not changing as well. The only major difference again is, again, it's a much smaller facility. It's \$4 million. It's 3 years and there is no annual clean out requirement forced upon us by CoBank.

Chairman Klee

I just have one other quick question. As part of the Resolution if I'm not mistaken here, it also talks about an \$800,000 loan?

John Boisvert, Chief Engineer

Yup and that is what George was just going to talk about.

George Torres, CFO/Corporate Controller/Treasurer

So the \$800,000 term loan that we're looking, it kind of works a little bit hand-in-hand with the FALOC. As I mentioned before at PEU, there is no requirement for us to clean it out. What this \$800,000 term loan is also with CoBank is actually to clean out the FALOC from the prior year's capital expenditures. Last year, I think PEU expenditures were roughly about \$1.1 - 1.2 million but the products that are actually eligible to be cleaned up are the FALOC because they had to go use them by years end is roughly just under \$800,000. So that's going to be cleared out by this term loan. I believe it's a 25 year note which mirrors the underlying assets that it's supporting. So it actually is beneficial to our rate payers because it actually spreads the cost of those capital expenditures over the useful lives of the assets that they're being financed with. So it's pretty standard for us. It's something that we go in every year. As I mentioned before, we're not required to do it but every year once our QC PAC filing process is complete and filed with the PUC, a determination is made the amount of projects that have gone used and useful and then we go into a term loan and clean out that FALOC and kind of the process starts all over again.

Chairman Klee

Thank you. Are there any questions. Alderman Lopez?

Alderman Lopez

Can you clarify for me the difference in purpose for the Pennichuck Water Works and Pennichuck East Utilities?

George Torres, CFO/Corporate Controller/Treasurer

I may have to turn to Don.

Larry Goodhue, CEO

I can address that for you. This is Mr. Goodhue. So Pennichuck Water Works is the utility that services Nashua and part of ten other communities within the State. So it serves out of our water treatment plant at the northern end of Nashua and/or off of that or we do actually have some remote systems.

Pennichuck East Utility serves part of nineteen other communities throughout the State. It's far east as the seacoast, as far north as the North Conway area, and it's got a very broad 2.500 square mile geographic dispersion within the State. So it's nineteen other communities that are not served by the Pennichuck Water Works Corporation. There are three regulating utilities in the Pennichuck Corporation group. The third one is an entity called "Pittsfield Aqueduct Company" which serves just the Town of Pittsfield, NH. So in the corporate group, we serve basically 30 communities because of the 11 at PWW, the 19 at PEU, there's one community they both serve. Community water service is the commonality there. There's 30 different communities that are served by the utility throughout the State of New Hampshire Tom.

Chairman Klee

Follow up?

Alderman Lopez

So I've been hearing a lot of questions in my Ward particularly regarding how the increase in housing and new projects is affecting utility work whether it's contributing to increases in utilities and repairs in the community for example is Monahan Manor. Is there any particular reason why because we're putting all the extra housing is that why there's so much additional utility work being done?

Now I have asked DPW about a lot of this with regards to other utility providers and their pretty consistent opinion is most of the things that are being done in the tree Streets are because the utility infrastructure there is incredibly old and convoluted and not even records of it fully exist sometimes. So they get it and they find three other things that need to be done and have to go back.

With regards to Pennichuck East, I know there's a regional effort to try to improve and expand housing. Are you guys anticipating any large projects that would require additional expansion or investment of infrastructure?

Larry Goodhue, CEO

First off, I guess what needs to be understood is as a regulated utility and the way we're structured, we don't make investments in prospective expansions of our system. So in accordance with our tariffs if a developer is going to develop something and want to connect into our system, they'd have to pay for the cost of that connection or they have to pay for the cost of the extension of a water main. We're obligated to serve in the franchise areas we are in. If a water main is going in front a property or something like that, they have to pay for the connection to that water system but then we're obligated to serve them. So when you're looking at development in the area, it's all based on that tariff structure. So we're not spending money on behalf of the developers. The developers if they're developing something has to spend money to connect to the water system. Once they're connected, we have an obligation to serve and they're all subject to our tariff rates.

Alderman Lopez

May I follow up?

Chairman Klee

Absolutely.

Alderman Lopez

While you don't have to invest in the initial infrastructure the obligation to serve are there physical expansions of your need?

Larry Goodhue, CEO

Not expansions of our needs. You know we've got adequate capacity. Certainly within our Pennichuck Water Works system, we've got excess capacity at the water treatment plant relative to our ability to serve but you know there's always a cost of producing and treating water and that is what our rates are based on is the actual recovery of that cost. We do have the responsibility to repair or replace mains once they are out of service.

We have an ongoing annual replacement program where we are investing \$10 to \$12 million every year in the replacement of aging infrastructure okay. Some of our water mains are well over 150 years old. Some of those are actually the most robust in our system but it comes down to what is the nature of the service, where is it located. One of the things that we partner with - and I'm speaking a little bit outside of my core because people sitting in the back, if they were up front here, they could help me answer this. We have an ongoing program that is in concert with the sewer replacement work we've done in the City of Nashua as well as the paving work that's being done in the City of Nashua. Because once a city street is paved, there's a moratorium for us to be able to reopen that. I think its 7 or 10 years in Nashua guys? Seven. So we make sure that if a street is being paved and we work directly with DPW in coordination with them is to make sure if there's a paving effort there is this something that's on the short list for what we need to replace the water mains. We might want to do that now.

Certainly with the sewer work because when those were originally put in the ground, they dug one trench, they put a water main in, they overfilled it, and then they put in a sewer main. I'm sorry sewer main first, water main on top. Don't get it backwards. But if they're undercutting our water main, that becomes problematic and so as that work has been done, we've been doing projects within our group in order to relocate and replace those mains so they're in two separate

trenches going forward but also they're being replace at that time.

Alderman Lopez

Okay. So you're not expecting any ongoing obligations that you wouldn't have already allowed for with regards to your rate payments and your...?

Larry Goodhue, CEO

As far as related to that development? No that doesn't...

Alderman Lopez

Not that specific development. That was the example given by constituents that were concerned but I know there's a number of other large housing developments contemplated in other communities. So my question was are they going to create problems for existing rate payers or is it already accounted for? As you said, the infrastructure's already covered so there will some management and a general expansion of need but that's accounted for in your existing rate structure.

Larry Goodhue, CEO

Again as it goes to future development regardless of the community we serve, it's the responsibility to the developer to pay for the costs of connecting to us. We don't build our system to go to them. That's not the business we're in. When we were a publicly traded company, there was a profitability motivation to expand the water system because you got what was called "return on rate base" and "return on equity". We're not that structure anymore. It is purely the recovery of incurred costs of producing, treating, and delivering water, and/or replacing aging infrastructure. So when I talk about development, I'm not talking about one project. I'm talking about any projects for development. Everybody is treated the same as far as the developers obligation to connect to our system.

Alderman Lopez

Okay. Understood. Thank you for your clarification.

Chairman Klee

Are there any other questions? Alderman Dowd?

Alderman Dowd

It's not directly related to this but the City is getting ready in the fall or in the spring to redo Main Street. Are we all up-to-date on water main replacement in Main Street other than the new development that's going in just a block from here? Main Street's due to be repaved entirely and with that moratorium are you guys all set?

Larry Goodhue, CEO

So could I ask our Chief Engineer John Boisvert to step up to a microphone to respond to that please?

John Boisvert, Chief Engineer

But to answer the question, we had done a lot of work on the side streets a few years back that went out into Main Street. Remember there was a bunch of shut downs and a lot of night work that was done to be able to tie some of these streets with new main to get it out of the Main Street area. The water main on Main Street is one of our older mains but it's probably one of our most structurally sound – knocking on wood – structurally sound mains that's there. So there's no real intention for us to have to go into Main Street at this point in time. We'll certainly take a look at a number of services to buildings that might need to be checked and looked at but as far as a large scale project, no. We won't have to do that.

Alderman Dowd

Okay.

Chairman Klee

Any other questions? I'm just going to make a comment. I know in my Ward in the Bartlett, and Wellington, and so on I know there are going to be, if it passes, the high pressure main will be coming in to service almost 75 homes there and then if I'm understanding correctly soon after that, there will be upgrades because I believe that is the oldest system in the City. Is that correct?

John Boisvert, Chief Engineer

As part of there's a developer that's coming in and is going to make some connections from a higher pressure system to the system that's there. Yes there is an area in that part of your neighborhood there that those mains are very old and they are on or radar for replacement. Many of them actually will be replaced. So of them may be rehabbed in place in a different manner but we are definitely going to be doing some work in those areas over the next 3, 4, 5 years. What I would call in a water system, the near-term radar.

Chairman Klee

Yeah, that was the indication that I was given sooner than later. So I appreciate that and so do the residents that live there as well. Any other questions?

MOTION CARRIED

NEW BUSINESS – ORDINANCES - None

GENERAL DISCUSSION

Alderman Dowd

Just one thing. As you may or may not have noticed, we have fixed the monitor issue on the front desk to the point where those that are height challenged can actually see over it.

Chairman Klee

I brought a cushion.

Alderman Dowd

So what we want to make sure is that nobody sitting up there touches the monitor. It's the way it should be and can be so people.

Chairman Klee

You should never have said that.

Alderman Dowd

So if we just leave it that way it will work.

Alderman Comeau

I've never had a problem seeing over it.

Alderman Lopez

Through the Chair to Alderman Dowd, did you mess with the recording device over here?

Alderman Dowd

No, no. You can ask the IT Department at the next meeting.

Chairman Klee

IT Department is here. We can ask them when this ends.

PUBLIC COMMENT - None

REMARKS BY THE ALDERMEN - None

ADJOURNMENT

**MOTION BY ALDERMAN O'BRIEN TO ADJOURN
MOTION CARRIED**

The meeting was declared closed at 7:26 p.m.

Alderman Thomas Lopez
Committee Clerk