



OFFICIAL MINUTES OF:

Meeting of:	Joint LRP/Finance Committee
Date:	September 28, 2005
Time:	10:15 AM

MEMBERS PRESENT

Vincent Mesoellella
Paul Pinault, Executive Director
Michael DiChiro
Michael Salvatore
Joseph Kimball
George Redman, CAC
Richard Burroughs
R. David Cruise

MEMBERS ABSENT

Richard Oster
Laurie Montanaro
Robert Andrade, Finance Chair

STAFF AND GUESTS PRESENT

Karen Giebink, NBC
Ray Marshall, NBC
Cecille Antonelli, NBC
Jamie Samons, NBC
Joanne Maceroni, NBC
Harold Gadon, CAC
Tammy Novo, BFMM
Michael McGiveney, RISA

Jean-Marie Grossi, NBC
John Zuba, NBC
Leah Foster, NBC
Francie Brown, NBC
Diane Buerger, NBC
Paul Frechette, BFMM
Pat Dodd, DPU

1. Call to Order

In the absence of Finance Chair Andrade, Chairman Mesoellella chaired the September 28, 2005 Joint Long Range Planning/Finance Committee Meeting. Recognizing a quorum, Chairman Mesoellella called the September 28, 2005 Joint Long Range Planning/Finance Committee meeting to order at 10:20 a.m.

2. Approval of Minutes – June 15, 2005

Chairman Mesoellella asked the members of the Joint Long Range Planning/Finance Committee if they had a chance to review the minutes of the June 15, 2005 Joint Long Range Planning/Finance Committee Meeting. Commissioner Salvatore motioned to approve the minutes of the June 15, 2005 Joint Long Range

Planning/Finance Committee Meeting as written. Commissioner Burroughs seconded the motion and the vote taken by the Joint Long Range Planning/Finance Committee was unanimous. The motion carries.

1. Items for Action

A. Review of Monthly Financial Statements

Ms. Karen Giebink stated that a copy of the July 2005 Financial Report is included in all Committee members' packets. With respect to Budget versus Expenses, we are approximately 16.7% the way through the fiscal year, and we are spending below budget at 14.6%. The Financial Monthly Report has been slightly modified. She noted that a new item was added which reflects the budgeted and filled positions under Item B on Page 1. Page 2 shows the User Fee Billing Report. We have completed the July billing, which was 95% of the projected billing and we are very pleased with that. The amount outstanding in Item B is approximately \$8.2 Million. On Page 3, with respect to Cash and Investments, we currently have \$92.1 Million, and that significant increase reflects the issuance of revenue bonds in July of \$45 Million. The Investments are detailed under Item B of Page 3.

Ms. Giebink further noted that we have invested the \$46.7 Million in Project Fund Proceeds in a Flexible Repurchase Agreement at 4.07%, which is an excellent rate. On Page 4, under Revenue Bonds Outstanding, we have \$45 Million that was issued on July 19, 2005, at a total in interest cost of \$4.724%. That will mature on August 1, 2035 and it is a 30-year revenue bond. The VRDO in the amount of \$70 Million was issued on April 29, 2004, is currently in weekly mode. The chart in her report shows the rate that we are able to achieve on a weekly basis versus the BMA SWAP Index, which is the industry standard. With respect to outstanding debt, it is currently \$355 million. On Page 5, the Capital Funds that we have available are detailed. In terms of loan proceeds, we have \$60.4 Million available. We also have other Capital funds available including Restricted Funds and the Capital Fund of \$6 Million for a total Capital Fund availability of \$66.5 Million. We anticipate supplementing that with an additional \$30 Million borrowing from the RI Clean Water Finance Agency in late-November or early-December. Ms. Giebink stated that Page 6 lists the capital payments by month and source. Also attached to the July Financial Report are the Financial Statements, Statement of Net Assets, Revenues, Expenses and Changes in Net Assets, and a Schedule of Budget versus Actuals. This concluded Ms. Giebink's report.

B. Consideration of Purchase Requisitions

None.

C. Consideration of Personnel Actions

Mr. Pinault stated that in the Operating Budget, we included an Appendix, which lists all NBC positions, which positions we plan to fund that year, and which positions we do not plan to fund and fill. As the year goes on, we have employees who retire and/or leave and we have to fill entry level positions and move employees around in accordance with the Union Contract. NBC has never exceeded the total number of budgeted positions; however, we may have to fill an Operator I position versus a Process Monitor position, etc. Rather than come before the Personnel and Finance Committees every month, we request delegating that authority to the Administration and Finance Division, because they are responsible to post and fill positions and make sure the funds are available in the budget.

With no comments or questions, Commissioner Cruise motioned to approve the Executive Director's recommendations as he outlined and was approved by the Personnel Committee earlier today. Commissioner Salvadore seconded the motion, and the vote taken by the Joint Long Range Planning/Finance Committee was unanimous. The motion carries.

4. Other Business

A. *Review and Approval of Resolution 2005:23, Authorization to Approve the Annual Comprehensive Financial Report*

Ms. Tammy Novo of Batchelor Frechette McCrory Michael & Co. presented the NBC's Comprehensive Annual Financial Report for the period of June 30, 2005. The highlights are listed below:

- Page 6 of the Report is a Certificate of Achievement and Excellence in Financial Reporting. This report was issued for NBC's June 30, 2004 Financial Statements, which were submitted to the GFOA for special recognition.
- On Page 9 of the Report is the Independent Auditors' Report. Again this year, the NBC has received a clean opinion and there is no management letter.
- On Page 11 is the Management Discussion and Analysis, which will point out the various financial highlights that occurred during the year.
 - Operating revenues increased approximately 7% over the prior year.
 - Operating expenses increased approximately 3% to give NBC a net gain of approximately 4%, which NBC used to finance various capital improvement programs.
 - The net income before capital contributions increased to \$13 Million, which was an increase of \$61,000 over the prior year. NBC achieved this even with the payoff of State debt, which occurred this year.
- On Page 12 of the Report is a Summary Net Asset statement. One of the things that may stand out on this page is the decrease in the Unrestricted Net Assets, which decreased approximately \$37 Million over the prior year. This was a result of the increases in NBC's capital projects, which were financed partially by an increase in debt, and the other half was financed by proceeds received in the prior year of debt that NBC had taken out.
- On Pages 19 and 20 of the Report is the Statement of Revenues, Expenses and Changes in Net Assets. She pointed out that NBC did have an increase in the Change in Net Assets overall.
- On Page 21 is NBC's Statement of Cash Flows. This shows NBC has very strong inflows of cash from operations and it also demonstrates where the majority of NBC's cash is going, which is to the various capital improvement projects. One item noted is the "Principal paid on debt." The number of \$18 million does include \$10 million of defeased State debt that was paid off during the year.
- Page 30 outlines footnotes, which show the payoff of all State debt. All loans outstanding to the State were paid off resulting in only the revenue bonds, which are outstanding at the end of the year.
- On Page 36 of the footnotes, there is a new footnote for the Non-Union Defined Benefit Plan.
- Page 40 is the Schedule of Expenses – Budget and Actual on a budgetary basis. Most of the items have a favorable variance and very few unfavorable variances, which as of the end of the year NBC had a favorable variance of Budget over Actual of \$3.5 Million.
- Page 68 of the Report is another Auditors Report, which indicates that we did test for compliance with reporting under Government Auditing Standards and also internal control according to Government Auditing Standards. Again, we had no findings and no issues.
- Page 72 is our last Auditors Report, which is the report on the Schedule of Travel and Entertainment. Based on our tests of the information presented, NBC was in compliance in all material respects with the State Law for Travel and Entertainment.

After some discussion, Commissioner Cruise motioned to approve Resolution 2005:23, Authorization to Approve the Annual Comprehensive Financial Report. Commissioner Kimball seconded the motion, and the vote taken by the Joint Long Range Planning/Finance Committee was unanimous. The motion carries. Ms. Karen Giebink thanked Leah Foster, NBC's Controller, for her hard work.

B. Review and Approval of Resolution 2005:24, Authority to Borrow an Amount Not to Exceed \$30,000,000 and Issue an Amount Not to Exceed \$30,000,000 Revenue Bonds (State Revolving Pool Loan 9)

Ms. Giebink stated that the authority to borrow an amount not to exceed \$30,000,000 and issue an amount not to exceed \$30,000,000 in revenue bonds is requested for the financing of our Capital Improvement Program. It is in accordance with our long-term financing model. We anticipate that the rate of this loan will be less than 2%, although the actual rate will not be determined until sometime in the near future. No additional rate relief is required to support this borrowing, and that is primarily the result of the fact that we were able to defease the State debt, which increase our State borrowing capacity. This loan is anticipated to be made at a blended rate consisting of 50% at zero percent and 50% at the traditional subsidized rate, which is one-third below the market rate.

With no questions or comments, Commissioner Salvatore motioned to approve Resolution 2005:24, Authority to Borrow an Amount Not to Exceed \$30,000,000 and Issue an Amount Not to Exceed \$30,000,000 Revenue Bonds (State Revolving Pool Loan 9). Commissioner Cruise seconded the motion, and the vote taken by the Joint Long Range Planning/Finance Committee was unanimous. The motion carries.

C. Review and Approval of Resolution 2005:25, Authorization to File for Rate Relief with the Rhode Island Public Utilities Commission

Ms. Giebink stated that as a result of a compliance filing, the NBC received a 12.05% increase in its revenue requirement effective July 1, 2005 to finance its capital program. NBC's last rate increase related to Operations and Maintenance (O&M) expenditures, which was 5.6% and took effect on October 1, 2004. Since that time, NBC has continued to evaluate our operating needs, and we have faced a number of increased costs associated with utilities, personnel and primarily sludge disposal. The NBC signed a long-term biosolids disposal contract with the Rhode Island Resource Recovery Corporation (RIRRC). Under the new contract, overall biosolids disposal costs will be higher than current costs, although it was determined that that was the least expensive long-term option. New, lower rates for biosolids disposal went into effect in January 2005 for Bucklin Point. At Field's Point, however, we will be discontinuing incineration by December 1, 2005 and the contracting cost will be significantly higher. She noted that in order to accommodate the higher sludge disposal costs this year, we were able to use the FY2005 Operating surplus. However, next year we are anticipating that it will be \$1.2 million higher than the amount that is currently recovered in rates. Due to a CPI adjustment, it is anticipated to increase by an additional \$500,000 in 2008. Therefore, we cannot accommodate this level of expenditure with the existing rates.

Ms. Giebink noted that we are now in the process of projecting and annualizing the fiscal year 2007 revenues and expenses. Preliminary calculations indicate that we would not need any more than a 6% increase in the revenue requirement to meet operating costs. An additional assessment is also underway to determine the feasibility of filing a "Sludge Adjustment Factor" or SAF that would allow NBC to recover the additional costs of biosolids, only, with annual true-ups. This was something that was in-place back in the late 1980's, and it would allow us to recover the costs associated with biosolids disposal and not require us to go through a full rate filing process. Current projections indicate that the SAF would not exceed a 2.5% increase in the revenue requirement. However, NBC has to decide whether or not it would be possible to manage the rest of our costs within the existing rates. She noted that electricity rates are anticipated to go up significantly, as well as natural gas. Those two utilities comprise a significant portion of NBC's annual Operating Budget.

Ms. Giebink further noted that because the PUC review and approval process lasts seven months, we need to prepare and submit our filing no later than December 1, 2005 to ensure rate relief for FY2007. Therefore, Resolution 2005:25 would authorize NBC to file with the PUC for rate relief for an increase in the revenue requirement not to exceed 6% for Operations and Maintenance costs with an effective date of July 1, 2006.

After some discussion, Commissioner Salvatore motioned to approve Resolution 2005:25, Authorization to File for Rate Relief with the Rhode Island Public Utilities Commission. Commissioners' Kimball and Burroughs seconded the motion, and the vote taken by the Joint Long Range Planning/Finance Committee was unanimous. The motion carries.

D. Review and Approval of Resolution 2005:26, Use of Environmental Enforcement Funds

Chairman Mesolella stated that NBC received a request from the Rhode Island Shellfishermen Association to assist in funding the State's shellfish seeding program. They have requested \$5,000 out of the total project cost of \$15,000. The NBC has provided staff to assist in the State's shellfish transplant program over the past several years, but we have not contributed any funds, because the RIDEM has been providing the required funds. He noted that there is another request to contribute funds to former Commissioner Leonard Walker's Scholarship Fund in the amount of \$500 for the MET School.

Mr. Pinault noted that the Environmental Enforcement Fund are funds that we collect from violators of our sewer use ordinance, illegal dumping, etc. They are basically fines and penalties, and by law, the funds cannot be used for operation and maintenance expenses of the NBC; however, the funds can be used for research and development, enforcement, and education. Therefore, he recommended approval of Resolution 2005:26, use of Environmental Enforcement Funds. He noted that NBC is the biggest contributor to coliform bacteria to the Bay, which results in approximately 250 days of shellfish bed closures per year. This will be reduced as the CSO Project begins to go on-line.

Commissioner Salvatore stated that former Commissioner Walker attended many meetings of the Narragansett Bay Commission over ten years, and he feels that a contribution of at least \$1,000 should be made to the Scholarship Fund.

After some discussion, Commissioner Salvatore motioned to amend Resolution 2005:26 to contribute \$1,000 to the Leonard Walker Scholarship Fund instead of only \$500. Commissioner DiChiro seconded the motion, as amended, and the vote taken by the Joint Long Range Planning/Finance Committee was unanimous. The motion carries.

5. Adjournment

Commissioner Salvadore motioned to adjourn. Commissioner DiChiro seconded the motion and the Joint Long Range Planning/Finance Committee Meeting adjourned at 11:07 a.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Paul Pinault".

Paul Pinault, Secretary