



OFFICIAL MINUTES OF:

Meeting of:	Finance Committee
Date:	November 15, 2006
Time:	10:30 AM

MEMBERS PRESENT

Vincent Mesoella
Robert Andrade, Finance Chair
Paul Pinault, Executive Director
R. David Cruise
Michael DiChiro
Joseph Kimball

MEMBERS ABSENT

Richard Oster
Leslie Gray

STAFF AND GUESTS PRESENT

Karen Giebink, NBC
Ray Marshall, NBC
Paul Nordstrom, NBC
Richard Bernier, NBC
Leah Foster, NBC
Dan Smith, NBC
Sherri Arnold, NBC
Joseph Pratt, LBG

Jean-Marie Grossi, NBC
Thomas Uva, NBC
Joanne Maceroni, NBC
Francie Brown, NBC
Jamie Samons, NBC
Cecille Antonelli, NBC
Anamaria Clarkin, NBC
Maureen Gurghigian, FSC

1. Call to Order

Noting that a quorum was present, Finance Chair Andrade called the Finance Committee meeting to order at 10:35 a.m.

Approval of Minutes - October 18, 2006 Finance Committee

Chair Andrade asked all Committee members if they have had a chance to review the minutes of the October 18, 2006 Finance Committee meeting. Commissioner Cruise motioned to approve the minutes of the October 18, 2006 Finance Committee meeting as written. Commissioner Kimball seconded the motion, and the vote taken by the Finance Committee was unanimous. The motion carries.

2. Items for Action

A. *Review of Monthly Financial Statements*

Ms. Karen Giebink referred to the October 2006 Monthly Financial Report. With respect to budget versus expenses, she noted that we are approximately 33% of the way through the fiscal year and we are spending under budget at 31%. She noted that 96% of the budgeted positions are filled. On Page Two, she noted that the October 2006 billing took place. She noted that on Page 3, Cash and Investment balances as of October 31, 2006 total \$35.9 Million. She noted that on Page 4, the long term debt under Item A shows the NBC versus BMA Swap Index Rate for the NBC variable debt in weekly mode. She noted short-term rates have gone up, but they are still holding steady at 3.5%. Outstanding debt is at \$363 Million. On Page 5, she noted that we have expended nearly all of our capital funds, so it is a good thing that we will be closing on our SRF Loan in December 2006. We currently have \$18.9 Million available, and of that 7.3% is available in revenue bonds and the balance is available from our restricted and capital funds. She noted that also attached to the October 2006 Financial Report is the Statement of Revenues, Expenses and Changes in Net Assets for the Period Ending October 31, 2006.

B. *Consideration of Purchase Requisitions*

Mr. Pinault stated that there is one purchase requisitions that requires approval from the Finance Committee. This requisition will pay for conducting annual inspections of NBC's critical electrical equipment for a three-year period. The estimated amount is \$110,000. This work will go out to bid.

Commissioner Cruise motioned to approve the requisition as explained by Mr. Pinault. Commissioner Kimball seconded the motion, and the vote taken by the Finance Committee was unanimous. The motion carries.

C. *Consideration of Personnel Actions*

Mr. Pinault stated that there are no personnel actions for consideration.

4. Other Business:

A. *Review and Approval of Resolution 2006:39, Adoption of Operations and Maintenance Reserve Fund Policy*

Ms. Giebink pointed out that Ms. Maureen Gurghigian from First Southwest Company was in attendance at the meeting, and noted that she worked with Ms. Gurghigian in the development of an operations and maintenance reserve fund policy. Ms. Giebink noted that the purpose of this Policy is to do whatever we can to strengthen our bond rating, because we will need to continue to borrow from the open market and the RI Clean Water Finance Agency. She stated the higher our credit rating is, the lower our cost of borrowing would be. In the Trust Indenture that was adopted and executed by the Board In April 2004, there were a number of funds that were established, but not all of them were funded. The operation and maintenance reserve is one of those funds.

Ms. Giebink noted that NBC is now preparing to establish a Policy to fund the O&M reserve at a level of 25% of annual operation and maintenance costs over a 7 to 10-year period beginning in Fiscal Year 2008. Another reason for establishing this Policy, was our last rate case filing, the PUC reduced our operating reserve to \$216,000. She noted that given NBC's budget of \$70 Million, this does not make good sense to us. Therefore, this Policy would establish an O&M Reserve level of approximately \$8 Million. She noted that we are also proposing that this O&M Reserve Fund be funded through the restricted carry-forward, so no additional revenues would have to be generated in sewer user rates to support the reserve.

Chairman Mesolella noted that in the last paragraph of Ms. Giebink's memo regarding the Public Utilities Commission approval of the Policy, he asked whether or not it would be prudent to have outside Legal Counsel, Attorney Peter McGinn, prepare an opinion for our request to establish the Reserve Fund Policy account. Ms. Giebink stated that she feels it would be helpful to have the testimony of Ms. Maureen Gurghigian. She noted that staff is planning on working with Maureen to provide testimony as part of our next rate case, and that would explain the reasons why the Reserve Fund should be funded. She stated we could also include an opinion from corporate legal counsel. Chairman Mesolella noted he feels that a legal opinion would be financially prudent. Ms. Gurghigian stated that she can assist with that by providing similar legal documents from higher rated facilities that do have an Operations and Maintenance Reserve Fund.

Ms. Giebink noted that NBC is trying to educate the PUC regarding the importance of having an operating surplus. We feel that it is an excellent financial management policy to operate with a surplus, and she feels the PUC needs to understand that. Chairman Mesolella agreed 100%.

Finance Chair Andrade asked Ms. Giebink, "why was the range of 7 to 10 years used rather than just 10 years?" Ms. Giebink stated that ultimately, with respect to the amount in the Fund that would be available, this would give NBC some flexibility in terms of what would be available to set aside each year. The Finance Chair then clarified by asking, "is it NBC's hope that this could be done in 7 years?" Ms. Giebink agreed.

Finance Chair Andrade pointed out to the Committee that the document that was mailed to the Board members has been revised, and that the revised document is included in the Committee and Board members packets today. The only change in the document and Resolution is the word "Policy" was omitted from the subject line.

Commissioner DiChiro motioned to approve Resolution 2006:39, Adoption of an Operation and Maintenance Reserve Fund Policy. Commissioner Cruise seconded the motion, and the vote taken by the Finance Committee was unanimous. The motion carries.

B. *Review and Approval of Resolution 2006:40, Authorization to Change the Provider of Trustee Services*

Ms. Giebink stated that prior to the issuance of the Variable Rate Demand Obligations issued in April of 2004, the NBC entered into a Trust Indenture. She noted that the Trust Indenture is a contract between the NBC and a bond trustee for the benefit of bondholders. She stated that NBC's initial Trustee, J.P. Morgan has been acquired by the Bank of New York. During the transition process, J.P. Morgan's service has suffered. Given the complexity of NBC's variable rate program and the planned issuances this fiscal year, the possibility of issuing a Request for Proposals for Trustee Services with our Financial advisor was discussed. She noted that it was subsequently determined that it would be advisable to seek proposals for new Trustee Services.

Ms. Giebink noted that on October 26, 2006, a Request for Proposals (RFP) was issued by NBC's financial advisor to the three financial institutions that offer Trustee services with a presence in Rhode Island. She stated the RFP was sent to USbank, Wells Fargo, and our current provider Bank of New York. Based upon a review of the proposals, we are recommending that NBC engage Wells Fargo for our Trustee services. Ms. Giebink also noted that all three proposal received were lower than our present cost for this service.

Finance Chair Andrade pointed out to the Committee that the document that was mailed to the Board members has been revised, and that the revised document is included in the Committee and Board members packets today. The first change in the document and Resolution is the word Chairman should be capitalized, and the second change is in the Resolution itself, in the last paragraph, the Resolution now states ".....the Chairman and the Executive Director" versus the first memo, which stated, "the Chairman and the Deputy Director."

After some comment, Commissioner DiChiro motioned to approve Resolution 2006:40, Authorization to Change the Provider of Trustee Services. Commissioner Cruise seconded the motion, and the vote taken by the Finance Committee was unanimous. The motion carries.

C. *Discussion of the Status of NBC Public Utilities Commission (PUC) Filings*

Ms. Giebink presented the following background regarding the NBC's upcoming PUC filing"

Financial Management

- Ongoing Use of Long-Term Financing Model
 - Debt Service Compliance Filing Mechanism with the PUC
- Comprehensive Budget Policies/Debt Policy
- 15 Years of Spending below Budget
- Excellent Collections Record
- Positive Relationship with Organized Labor
 - Negotiated 4-year contract with Both Unions (2010)
 - Wage Study Implementation
 - Phase-out of Longevity Pay
 - Health Insurance Co-Payments
- "Locked-in" Electricity Supply (January 2010)
- Locked-in" Natural Gas (April 2008)
- 20-Year Contract for Bio-solids disposal
- 20-Year Management Contract for Bucklin Point

Late Fees as a Percent of User Charges

- Late fees as a percentage of user charges, has continued to decline, reflecting NBC's effective collection efforts.

General Rate Filing to be Filed 12/1/06

- Test Year is Fiscal Year 2006
First Audited Year in Several Dockets
- Test Year Adjustments
 - Normalizing Adjustments for Non-recurring Items
 - Adjust to rate year expense levels
- Adjusted Test Year

Anticipated Filing – By Expense

Major Factors – Personnel

- Docket 3707 Based on FY2005 Levels
- Salaries and Wages to FY2008 Levels
- Based on FY2006 Actuals

-No turnover
-No FTE's

- Update Healthcare for Premiums and Co-Payments
- Union Retirement and Union Health Retirement

Major Factors – Operating

- Biosolids, Workers Compensation, Management/Audit, Other

Major Factors – Revenue Shortfall

- Correction Base
 - \$1.3 Million shortfall
- Overall with Expenses
 - \$4.5 Million Revenue Adjustment Required

Recent Filings

November 1, 2005 – Docket 3707

-Rates Effective July 1, 2006

- Requested 5.1%
- Received 3.85%
- Increased Related to O&M
 - Healthcare, Union Retirement
 - Biosolids, Electricity

October 4, 2004 – Docket 3639

-Rates Effective July 1, 2005

- Requested 12.05%
- Received 12.05%
- Increase Related to Debt Service

October 4, 2006 – Docket 3775

-Rates Effective July 1, 2007

- Requested 9.5%
- Pending
- Increase Related to Debt Service

Rate Increases

Projected Future Rates

Finance Chair Andrade noted that the presentation does not require a vote by the Committee, and is for informational purposes only.

This ended the presentation.

5. Adjournment

Commissioner DiChiro motioned to adjourn. Commissioner Cruise seconded the motion and the Finance Committee meeting adjourned at 10:56 a.m.

Respectfully submitted,

Paul Pinault

Paul Pinault, Secretary