

The Narragansett Bay Commission
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Vincent J. Meselella
Chairman

Paul Pinault, P.E.
Executive Director



OFFICIAL MINUTES OF:

Meeting of:	Joint Long Range Planning/Finance Committee
Date:	September 27, 2006
Time:	10:15 AM

MEMBERS PRESENT

Vincent Meselella
Robert Andrade, Finance Chair
Paul Pinault, Executive Director
R. David Cruise
Michael DiChiro
Richard Burroughs
Leslie Gray
Leo Thompson

MEMBERS ABSENT

Richard Oster
Joseph Kimball
Michael Salvatore

STAFF AND GUESTS PRESENT

Karen Giebink, NBC
Ray Marshall, NBC
Paul Nordstrom, NBC
Richard Bernier, NBC
Leah Foster, NBC
Jill Colby, NBC
Jennifer Harrington, NBC
John Zuba, NBC
Sherri Arnold, NBC
Jason Galego, NBC
Joseph Pratt, LBG
Maureen Gurghigian, FSC

Jean-Marie Grossi, NBC
Thomas Uva, NBC
Joanne Maceroni, NBC
Francie Brown, NBC
Jamie Samons, NBC
Laurie Bisonnette, NBC
Kerry Britt, NBC
Cecille Antonelli, NBC
Diane Buerger, NBC
Dan Smith, NBC
Tammy Novo, BFMM
Jeff Nemecek, Tillinghast Licht, LLP

1. Call to Order

Noting that a quorum was present, Finance Chair Andrade called the Joint Long Range Planning/Finance Committee meeting to order at 10:22.

2. Approval of Minutes - June 1, 2006 Finance Committee
June 14, 2006 Joint LRP/Finance Committee

Chair Andrade asked all Committee members if they had a chance to review the minutes of the June 1, 2006 Finance Committee meeting. Commissioner Gray motioned to approve the minutes of the June 1, 2006 Finance Committee meeting as written. Commissioner Andrade seconded the motion, and the vote taken by the Finance Committee was unanimous. The motion carries.

Chair Andrade asked all Committee members if they had a chance to review the minutes of the June 14, 2006 Joint Long Range Planning/Finance Committee meeting. Chairman Mesoletta motioned to approve the minutes of the June 14, 2006 Joint Long Range Planning/Finance Committee meeting as written. Commissioner Gray seconded the motion, and the vote taken by the Joint Long Range Planning/Finance Committee was unanimous. The motion carries.

3. Items for Action

A. Review of Monthly Financial Statements

Ms. Karen Giebink referred to the August 2006 Financial Report. With respect to budget versus actual, she noted that we are approximately 16.7% of the way through the fiscal year and we are spending 14.1%. She noted that 97% of the budgeted positions are filled. On Page Two, she noted that the July 2006 billings were slightly higher than we expected, and we are very pleased about that. She stated that the amount outstanding is \$7.9 Million, and that reflects the recent July billing. With respect to cash and investments, she noted they total \$63.7 Million as of August 31, 2006. Investments are detailed under Item B.

On Page Four, Long Term Debt, Ms Giebink noted NBC has a \$70 Million Variable Demand Bond Issue, and the short-term rates are reflected in the chart entitled, NBC vs. BMA Swap Index. With respect to Item B, State Revolving Fund, NBC has completely expended SRF 9, and we have applied for SRF 10, which is on the agenda for today. Outstanding debt as of August 31 is \$374.8 Million. On Page Five, the total Capital Funds available are at \$25.9 Million. Page 6 shows why our Capital Funds available balance has declined substantially over the last few months with the significant payments in July of 2006 of nearly \$12 Million. Also attached to the August 2006 Financial Report is the Statement of Revenues, Expenses and Changes in Net Assets for the Period Ending August 31, 2006.

B. Consideration of Purchase Requisitions

Mr. Pinault noted that there are no purchase requisitions that need approval, however, there is a summary in your report of purchase requisitions of less than \$10,000 that were approved over the last month.

C. Consideration of Personnel Actions

None.

4. Other Business:

- A. *Review and Approval of Resolution 2006:26, 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 Fund Pool Loan 10)*

Ms. Giebink stated that this item is the standard resolution that would authorize the NBC to borrow from the Clean Water Finance Agency at the traditional subsidized and blended rate. She noted that this would be State Revolving Fund Pool Loan 10. In order to consummate this borrowing filing, she noted that we would need rate relief, and that is contemplated under Item E on today's agenda. The blended rate would consist of 50% of the traditional subsidized rate, which is 1/3 below the market, and 50% at zero percent. As she mentioned, this would require rate relief in order to complete this transaction. This is similar to the process that NBC went through approximately 2 years ago when we filed a Compliance Rate Filing as part of the multi-year rate relief package that was approved by the Public Utilities Commission (PUC). She noted that the last time NBC filed on October 4, 2004, the PUC issued a bench decision in mid-November. Therefore, staff anticipates that they will be similarly as responsive this time and we would receive our rate relief in time. Ms. Giebink further stated that NBC will be filing an application with RI Division of Public Utilities for the approval to enter into long-term debt.

With no comments or questions, Chairman Mesolella motioned to approve Resolution 2006:26, 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 Fund Pool Loan 10) as recommended by staff. Commissioner Gray seconded the motion, and the vote taken by the Joint Long Range Planning/Finance Committee was unanimous. The motion carries.

Chair Andrade stated that with the Board's approval, he would like to move down to Item D of the agenda because they relate to Item A.

- D. *Review and Approval of Resolution 2006:32, Authority to Issue Revenue Bonds and Notes in an Amount Not to Exceed \$30,000,000 to Finance Narragansett Bay Commission (NBC) Capital Improvements*

Ms. Giebink stated that Resolution 2006:32 authorizes the NBC to issue on the open market short-term notes for our revenue bonds. The purpose of this Resolution is to enable the NBC to borrow and meet our obligations to fund our Capital Program in the event that the PUC decides it needs more time in which to respond to our request for rate relief.

Ms. Giebink introduced Ms. Maureen Gurchigian from First Southwest, NBC's financial advisor, and Jeff Nemecek from Tillinghast Licht, our bond counsel. Therefore, Ms. Giebink noted that NBC is looking at one or the other to issue the \$30,000,000 through the Clean Water Finance Agency or in the open market. She noted that we are presently in the process of updating our long-term financing model. Typically, as part of that process, staff will take a look at our debt service needs over the next two years, and there have been a number of changes in terms of cash flows even in the updated model for the budget. We are updating the long term finance model, and we are determining when would be the best time to approach the market. In either case whether or not we decide to issue some open market bonds in 2007 and some in 2008, we will have to issue some open market debt within the next few years, because the Clean Water Finance Agency does not have sufficient capacity to finance our entire Capital Program. Therefore, she noted that staff is presently in the process of evaluating whether or not it would make sense to borrow the entire amount of the open market issue in 2007, because of the really low long-term rates we may be able to achieve a very favorable long-term rate.

Commissioner Gray asked what the difference is between the open market and blended rates? Ms. Gurghigian is always going to be better because 50% of the loan is at zero percent. With respect to the subsidized portion, they determine with our assistance what your open market rate would be and it could be one-third off that rate. She noted that today the blended rate would probably be 3% or lower and the open market rate would be between 4.5% and 5%. She stated that the Clean Water Finance Agency's capacity is driven by a lot of things, but the main thing is the capitalization grants they get from the Federal government and the State match. She noted that the Federal capitalization grants have been declining, so their capacity is going to decline. They also had a finite zero capacity which was produced by a general obligation bond that was actually supposed to run out 2 to 3 years ago, but with the assistance of this Board, we were able to restructure one of the NBC's loans that can help enhance the Clean Water Finance Agency's capacity.

Mr. Pinault stated that historically, the Federal government has put \$1.35 Billion nationally into the Clean Water Loan Program. He noted that last year it was approximately \$800 Million, and this year the President's budget is only \$587 Million. Due to the war and terrorism and other priorities, the money is going to other things at the national level, but we still have these projects to complete so we would go to the open market.

Ms. Giebink stated that the original intention was to borrow \$30 Million from the Clean Water Finance Agency, and that is what we intend to do. She noted that worse case scenario would be if we receive feedback from the PUC that it is not likely that they will be timely in terms of rendering a decision with respect to rate relief, then we need the ability to issue short-term notes on the open market. That is the intent of these resolutions. Should NBC desire to issue long-term open market revenue bonds, we will come back to the Board with a resolution specifically authorizing NBC the ability to issue long-term debt. She noted that we would probably seek an amount greater than \$30 Million once we take a look at what our needs will be in 2007 and 2008.

After some discussion, Chairman Mesolella motioned to approve Resolution 2006:32, Authority to Issue Revenue Bonds and Notes in an Amount Not to Exceed \$30,000,000 to Finance Narragansett Bay Commission (NBC) Capital Improvements. Commissioner Gray seconded the motion, and the vote taken by the Joint Long Range Planning/Finance Committee was unanimous. The motion carries.

E. *Review and Approval of Resolution 2006:33, Authorization to File a Compliance Filing for Rate Relief Related to Debt Service with the Rhode Island Public Utilities Commission*

Ms. Giebink stated that as she mentioned earlier, in order for the NBC to enter into any additional long-term debt agreements or issue any additional revenue bonds, we would require rate relief primarily in order to achieve our rate coverage requirements for future years. She noted that based on some preliminary calculations, we project that a maximum rate increase of 11% on user charges would be required. She is in the process of refining that figure and that figure would be for two years of debt service. The rate increase would be in effect on July 1, 2007 and is designed to generate revenues that will support NBC's borrowings through fiscal year 2009.

After some discussion, Commissioner Gray motioned to approve Resolution 2006:33, Authorization to File a Compliance Filing for Rate Relief Related to Debt Service with the Rhode Island Public Utilities Commission. Commissioner Thompson seconded the motion, and the vote taken by the Joint Long Range Planning/Finance Committee was unanimous. The motion carries.

B. Review and Approval of Resolution 2006:27, Authorization to Approve the Comprehensive Annual Financial Report for Fiscal Year 2006

Ms. Tammy Novo from Batchelor Frechette McCrory Michael & Co. gave a presentation to the Committee members on the audited Annual Financial Report for Fiscal Year 2006. She thanked Karen Giebink and Leah Foster and the entire Accounting and Finance Sections for all their hard work.

Ms. Novo reviewed the following highlights with respect to NBC's Annual Financial Report for Fiscal Year 2006:

- Certificate of Achievement for Excellence in Financial Reporting presented to the NBC for last year's financial statements.
- Independent Auditors' Report
- Management's Discussion and Analysis of the Financial Statements
- NBC Statement of Net Assets
- NBC Statement of Revenues, Expenses and Changes in Net Assets
- Capital Contributions a decrease from prior year due to EPA grant reimbursement
- Long-Term Debt – A+ Rating for NBC
- Statement of Net Assets
- NBC's Capital Assets
- Loans Payable
- Additional Long-Term Debt – Revenue Bonds
- Breakdown of Long-Term Debt
- NBC Pension Plans
- NBC Commitments and Contingencies
- Schedule of Expenses, Budget and Actual (Budgetary Basis)
- NBC Combining Statements of Net Assets
- NBC Combining Statements of Revenues, Expenses and Changes in Net Assets
- NBC Ten-Year Breakdown of Financial Statements and Statement of Net Assets
- Schedule of NBC's Ten Largest Customers
- Schedule of Debt Coverage for Last Ten Years
- Annual Residential Sewer Charges for RI Cities and Towns

- Second Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards
- Schedule of Expenditures of Federal Awards Received by NBC
- Report on Schedule of Travel and Entertainment

Ms. Novo noted that again this year there is no Management Letter to NBC, and this concluded her presentation.

Commissioner DiChiro motioned to approve Resolution 2006:27, Authorization to Approve the Comprehensive Annual Financial Report for Fiscal Year 2006. Commissioner Gray 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 2006:28, Use of Environmental Enforcement Funds

Mr. Pinault stated as all Board members are aware, former Commissioner Len Walker who served on this Board for ten years unexpectedly passed away in October of 2003. He noted that his family has established a Walker Family Scholarship Fund which provides scholarships for needy students at the MET School in Providence. Our Environmental Enforcement Fund, which is funded by penalties and fines that are imposed upon individuals that violate our sewer use ordinance or Pretreatment permits, can only be used for educational purposes, emergency response, etc., and cannot be used for operating expenses. Therefore, Mr. Pinault recommended a contribution of \$2,500 to this scholarship fund.

Commissioner DiChiro motioned to approve Resolution 2006:28, Use of Environmental Enforcement Funds as presented by staff. Commissioner Burroughs seconded the motion, and the vote taken by the Joint Long Range Planning/Finance Committee was unanimous. The motion carries.

5. Adjournment

Commissioner DiChiro motioned to adjourn. Commissioner Gray seconded the motion and the Joint Long Range Planning/Finance Committee meeting adjourned at 11:02 a.m.

Respectfully submitted,



Paul Pinault, Secretary