



OFFICIAL MINUTES OF:

Meeting of:	Finance Committee
Date:	October 24, 2007
Time:	10:30 AM

MEMBERS PRESENT

Vincent J. Meselella, Chairman
Angelo S. Rotella, Vice Chairman
Robert Andrade, Finance Chair
Raymond Marshall, Executive Director
Leslie Gray, III
Leo Thompson
Jonathan Farnum
Joseph Kimball
Michael DiChiro
John MacQueen
Richard Burroughs
Michael Salvadore
Kristin Sullivan

MEMBERS ABSENT

R. David Cruise

STAFF AND GUESTS PRESENT

Karen Giebink, NBC
Francie Brown, NBC
Mark Thomas, NBC
Leah Foster, NBC
Anamaria Clarkin, NBC
Joanne Maceroni, NBC
Laurie Horridge, NBC
Joseph Pratt, LBG

Jean-Marie Grossi, NBC
Thomas Uva, NBC
Richard Bernier, NBC
Jamie Samons, NBC
Sherri Arnold, NBC
Tom Brueckner, NBC
Jennifer Harrington, NBC
Laurie Brayton, Senate Fiscal Office

1. Call to Order

Noting that a quorum was present, Finance Chair Andrade called the October 24, 2007 Finance Committee meeting to order at 10:45 a.m.

2. Approval of Minutes - June 20, 2007 Joint LRP/Finance Committee Meeting
September 26, 2007 Finance Committee Meeting

Finance Chair Andrade asked the Committee if they have had a chance to review the minutes of the June 20, 2007 Joint LRP/Finance Committee meeting, and if so, is there a motion to approve? Commissioner Farnum motioned to approve the June 20, 2007 Joint LRP/Finance Committee Meeting as written. Commissioner MacQueen seconded the motion, and the vote taken by the Finance Committee was unanimous.

Finance Chair Andrade asked the Committee if they have had a chance to review the September 26, 2007 Finance Committee Meeting minutes, and if so, is there a motion to approve? Commissioner Farnum motioned to approve the September 26, 2007 Finance Committee Meeting minutes. Commissioner Gray seconded the motion, and the vote taken by the Finance Committee was unanimous. The motion carries.

3. Items for Action

A. Review of Monthly Financial Statements

Ms. Karen Giebink referred to the September 2007 Monthly Financial Report. With respect to Budget versus Actual, she noted that we are approximately 25% of the way through the fiscal year, and we are spending below budget at 22.8%. She noted that under "Personnel," with respect to FTE's, 97% of the budgeted positions are filled, and that it is one of the most significant reasons that we are running under budget. Ms. Giebink noted that on Page 2 of the report, we completed our July billing at approximately \$14.3 Million which was 93% of what we had projected. Therefore, the decline in consumption billings continues.

Mr. Giebink noted that with respect to Receivables, we have \$10.5 Million in outstanding receivables. On Page Three, Cash and Investment balances total approximately \$65.4 Million. On Page Four, under Long Term Debt Summary, as well as the Outstanding Debt Summary, Ms. Giebink reported that we have now fully expended the proceeds from SRF Pool Loan No. 10. On Page Five, she noted the NBC has available capital funds in the amount of \$48.2 Million, and that on Page Six are the Capital Payments by Month and Source. Attached to the Financial Report are the Statement of Revenues, Expenses and Changes in Net Assets, the Statement of Net Assets, and the Detailed Budget versus Actual.

This concluded Ms. Giebink's report.

B. Consideration of Purchase Requisitions

Mr. Marshall stated that included in all Committee members' packets is a list of year-to-date budget transfers by month. He noted that they do not require any action on the Committee's part, but we are required to report those to you, as well as the information on the green sheets which show the purchase requisitions that are greater than \$10,000 which also do not require Committee approval, but are required to report this information to the Finance Committee.

C. Consideration of Personnel Actions

Mr. Marshall stated that the Personnel Committee met earlier this morning and approved several changes to our organizational plan, and noted that they do not negatively impact the budget; and, therefore, do not require Finance Committee approval.

D. Review and Approval of Resolution 2007:27, Authorization to File for Rate Relief with the Rhode Island Public Utilities Commission

Ms. Karen Giebink referred to a memo dated October 12, 2007 to the Finance Committee and Board of Commissioners. She noted that the purpose of this memo is to provide background information in support of the NBC Finance Committee and, ultimately, the NBC Board of Commissioner's approval of Resolution 2007:27.

The following is a summary of Ms. Giebink's report.

Ms. Giebink stated that on July 1, 2007, the NBC implemented a rate increase of 9.50% related to debt service along with an increase of 2.78% to address rate base issues, as well as increased operation and maintenance costs.

- Rate Increase History
 - Cumulative Increases in Operations and Maintenance (39%) are significantly lower versus the cumulative increases for Debt and Debt Service Coverage (232%)
- Rate Issues for Fiscal Year 2009 include:
 - Debt Service and Debt Service Coverage
 - Structure of \$25 Million SRF loan eliminated need for separate debt filing this Fall
 - Rate relief for debt issuance in FY 2009
 - Operation and Maintenance Costs
 - CSO Tunnel on-line in October 2008
 - Consumption Related Revenue Shortfall
 - Liquidity and the funding of an Operating Reserve for Revenue Stability Fund
 - Overall Rate Impact less than 18% increase in the revenue requirement
 - Action Requested is the approval of Resolution 2007:27

Ms. Giebink requested approval of Resolution 2007:27, Authorization to File for Rate Relief with the Rhode Island Public Utilities Commission (PUC). Commissioner DiChiro seconded the motion, and the vote taken was unanimous. The motion carries.

This concluded Ms. Giebink's report regarding Resolution 2007:27

After some discussion, Commissioner MacQueen motioned to approve Resolution 2007:27, Authorization to File for Rate Relief with the Rhode Island Public Utilities Commission (PUC). Commissioner DiChiro seconded the motion, and the vote taken was unanimous. The motion carries.

E. Review and Approval of Resolution 2007:28, Adoption of Operating Reserve for Revenue Stability Fund Policy

Ms. Giebink stated that NBC executed a Trust Indenture which services as a contract between the NBC and the Trustee for the benefit of bondholders. This complex document sets forth the flow of funds, reserve requirements, rate covenants and the bond lien status, among other things. She stated that the Trust Indenture also integrates the restricted cash account requirements set forth by the Rhode Island Public Utilities Commission (PUC). On a monthly basis, the NBC makes a number of cash transfers in accordance with the Trust Indenture and PUC restrictions.

Ms. Giebink noted that more than 63% of NBC's total revenues are generated from consumption charges. She stated that although the NBC has worked with the PUC to develop rates that are designed to generate 125% of debt service, reduced consumption which can have an adverse impact on revenues, cash flow and ultimately the NBC's ability to make all of the required monthly transfers. It was also noted that over the past four years, the NBC has experienced variability in billable consumption, as well as a continuous decline in billable consumption.

In addition to the variability of consumption, Ms. Giebink stated that the delay in the impact of new rates due to lags in the receipt of water meter readings also impacts revenues and cash flows. A review of the

billed consumption reveals that on average, only 60% of the consumption billed in any fiscal year is at the rates in effect during that fiscal year.

Due to the significant cash flow requirements under the Trust Indenture, it is imperative that the NBC have the ability to fund all of its accounts, regardless of variations in consumption revenue. Accordingly, it is recommended that the NBC Board of Commissioners adopt a policy for the establishment and funding of an Operating Reserve for a Revenue Stability account. It is proposed that the account be funded through user charges as opposed to the restricted carry-forward to ensure a consistent funding source.

Ms. Giebink noted that last year, NBC's Board of Commissioners adopted a policy for the funding of an Operation and Maintenance Reserve Fund that was to be financed through the restricted carry-forward and was used if there was insufficient cash to meet operation and maintenance costs. She noted that the PUC did not allow the funding of this account, but based upon their comments, it is our understanding that the PUC is aware of the consumption revenue issue and may be more receptive to a Reserve Fund designed to specifically address revenue variability.

Based on discussion and analysis with our Financial Advisor, Ms. Giebink stated that it is recommended that NBC fund its Operating Reserve for a Revenue Stability Fund at 25% of annual operation and maintenance cost adjusted with annual budget increases. The NBC intends to achieve the 25% level over approximately five (5) years beginning in FY2009 with annual funding at a level of approximately 2% of NBC's PUC approved revenue requirement. She noted that the NBC shall seek approval from the PUC to replenish the Operating Reserve for Revenue Stability Fund in the case that funds from the Operating Reserve for Revenue Stability Fund have been used. It was also noted that the Operating Reserve for Revenue for Revenue Stability Fund shall be funded through user charges and shall only be used to fund required expenditures up to the most recent PUC approved revenue.

Ms. Giebink noted that due to the fact that the NBC is a regulated utility, NBC must seek the approval of the PUC to fund the reserve. In order to ensure continued prudent financial management and to demonstrate our commitment to such, a formal Operating Reserve for Revenue Stability Fund policy has been developed and is presented to the Board for approval. Should the PUC authorize the funds establishment and funding, she stated that additional documents may need to be executed by the NBC Board of Commissioners to effectuate the Fund's establishment. Therefore, approval of Resolution 2007:28 is hereby respectfully requested.

After some discussion, Commissioner Farnum motioned to approve Resolution 2007:28, Adoption of Operating Reserve for Revenue Stability Fund Policy. Commissioner DiChiro seconded the motion, and the vote taken by the Finance Committee was unanimous. The motion carries.

4. Other Business:

None to report.

5. Adjournment

With no further business to come before the Finance Committee, Commissioner MacQueen motioned to adjourn. Commissioner Farnum seconded the motion, and meeting adjourned at 11:16 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Raymond J. Marshall". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Raymond J. Marshall, P.E.
Secretary/Executive Director