

The Narragansett Bay Commission
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Vincent J. Mesoella
Chairman

Raymond J. Marshall, P.E.
Executive Director



OFFICIAL MINUTES OF:

Meeting of:	Finance Committee Meeting
Date:	May 22, 2012
Time:	12:30 p.m.

MEMBERS PRESENT:

Robert Andrade, Committee Chairman
Mario Carlino
Michael DiChiro
Jonathan Farnum
Joseph Kimball
John MacQueen
Vincent Mesoella, NBC Chairman
Joan Milas

MEMBERS ABSENT:

Leslie Gray, III

STAFF AND GUESTS PRESENT:

Raymond J. Marshall, NBC Executive Director
Thomas Uva, NBC
Jennifer Harrington, NBC
Sherri Arnold, NBC
Pamela Duckworth, NBC
Leah Foster, NBC
Paul Nordstrom, NBC
Karen Giebink, NBC

Laurie Horridge, NBC
Karen Musumeci, NBC

1. Call to Order

Finance Committee Chairman Robert Andrade called the May 22, 2012 Finance Committee Meeting to order at 12:35 p.m.

2. Approval of Minutes – None

3. Items for Action

A. Review of Monthly Financial Statements and Expenditures
None.

B. Consideration of Purchase Requisition
None.

C. Consideration of Personnel Actions
None.

4. Other Business

Review of NBC's Draft Fiscal Year 2013 Operating Budget

Committee Chairman Andrade turned the meeting over to Karen Giebink for the NBC FY 2013 Proposed Operating Budget presentation.

Ms. Giebink distributed a draft Narragansett Bay Commission FY 2013 Operating Budget presentation booklet to each member of the Finance Committee.

Ms. Giebink began by reviewing the Budget preparation process which she stated started back in October. She advised the Committee that Pages one through three of the presentation highlight the Budget Considerations including regulation by the PUC with respect to Restricted Funds and Rate Relief as well as constraints set forth in the NBC Trust Indenture and Supplemental Indentures. She noted that the NBC faces a number of constraints as part of the budget preparation process and therefore review of operational and financial information takes place throughout the year to ensure that NBC has sufficient revenues to support its operating and capital needs. She also noted that the PUC has restricted the revenues associated with NBC's revenue requirement for debt service and debt service coverage. She explained that NBC's operating budget may only be funded from unrestricted revenues and that the NBC must expend and manage its resources in accordance with the Trust Indenture and Fifteen Supplemental Indentures executed as part of the issuance of Revenue Bonds. The Trust Indenture further restricts the use of NBC funds and assets which also affects the operating budget.

Ms. Giebink next reviewed the Preliminary FY 2012 Budget Projections on Page 4. She advised that this is something that staff has been developing over time at Committee Chairman Andrade's request to see how NBC will finish the current fiscal year compared to the budget.

With respect to FY 2012, she noted that it is projected that NBC will come in significantly under budget again and this is detailed under the expenses chart on Page 4. Projections show that Operations & Maintenance will finish \$2.2 million under and with respect to Debt Service, \$3.2 million under. Ms. Giebink also noted that with respect to revenues we are also projecting to end the year a little bit lower as discussed at Finance Committee meetings earlier in the year. Some of the factors contributing to lower revenues are consumption adjustments, flat fees being down and a drop in connection and permit fees as a result of the current economy. She also discussed the FY 2012 Budget vs. Projected Revenues and reviewed the Revenue Analysis with the Committee.

Sherri Arnold reviewed the FY 2012 Operating Budget by Major Line Item, Budget vs. Projected Operations & Maintenance, Personnel Costs and Debt Service with the Committee.

She noted that NBC is projecting to finish the year \$ 3.2 million under budget. She stated that personnel costs are projected to be lower than the budgeted amount and that is due to turnover and added that, as a result, retirement, healthcare and related benefits will also be lower than their budgeted amounts. The expenses for electricity, natural gas and chemicals are all projected to be lower than the budgeted amount based on lower than projected usage; however, bio-solids expense is projected to be slightly higher than budgeted amount due to an increase in the disposal rate.

Ms. Giebink advised that overall, NBC is projecting FY 2012 O&M expenses to be under budget. Regarding debt service, nearly \$1.8 million in saving in debt service is anticipated to be realized from the VRDB's as a result of historically low short-term interest rates. She also noted that, the NBC will not incur programmed debt service costs associated with SRF borrowings as the loan is not scheduled to close until June 2012.

She advised that Page 11 of the presentation shows the FY 2013 Operating Budget overview. She noted that we are looking at a budget that is 3.3% higher than last year with Operations & Maintenance expense a modest 0.4% above last year's budget and a 6.9% increase for debt service. Debt service coverage is 6.6% lower and Capital Outlays are 29.7% higher. Overall, the total expenses total 3.3% higher than the prior year.

With respect to FY 2013 projected revenues on Page 12, there will be an increase in User Fees for FY 2013 of approximately \$1.77 million and, effective 7/1/2012 there will be an increase in user charge rate of 2.25% for debt. She noted that the revenues are based upon approved levels and that the Operating Revenue Stability Fund authorized by the PUC, may be used by NBC to meet its financial obligations during periods of revenue fluctuation. She also noted that there will be an increase in BOD/TSS surcharges, a reduction in Sewer Connection Permit Fees, an inclusion of \$950,000 Revenue Fund Balance and a decrease in Miscellaneous Revenues (stand-by electricity generation contract) for FY 2013.

Ms. Giebink also reviewed with the Committee and explained the Projected Fund Balance as of June 30, 2012, a chart showing actual and projected user fees from FY 2009 through FY 2013 and the NBC Rate History from 7/1/2009 through 7/1/2012. She noted that the NBC has not had a rate increase for Operations and Maintenance since July 1, 2009, but there are a number of new facilities coming on-line during the upcoming fiscal year. She added that the increased costs were absorbed in the FY 2013 budget but that NBC won't be able to go another year without coming back before the Board of Commissioners for rate relief for Operations & Maintenance expenses. The rate relief would be for FY 2014 and is related to the new facilities required to meet higher levels of treatment. She advised that in the interim, staff may also have to come before the Board for rate relief related to debt service as the capital program begins to heat up. NBC is in the middle of a lot of construction and depending on the timing of the cash flows would determine whether or not there is a need to issue revenue bonds and this would be presented to the Board for their review as well.

Ms. Giebink advised that Page 14 outlines the FY 2013 Expense Assumptions. The budget is based on the Strategic Plan and the Strategic Plan goals are outlined on this page. The table at the bottom of the page shows how the Actions for Achievement by Strategic Plan Goal are aligned. Most of them are associated with Core Business and Financial Management. Page 15 explains the balancing of the 2013 Budget and the Budget Changes by Major Line Item. The original FY 2013 Budget requests were cut by almost \$3 million dollars and the revised Operations and Maintenance costs for FY 2013 are just slightly higher than the FY 2012 Budget.

Ms. Arnold reviewed the FY 2013 Operating Budget Significant Changes on Page 16 which compares the FY 2012 Budget to upcoming FY 2013 Budget. She advised that Personnel costs have increased from the prior year by 1.5 % as union salaries, health insurance and union retirement health insurance have increased. The majority of all the O & M costs have decreased with the exception of bio-solids expense. She noted that budgeted professional services also decreased from the prior year. Overall, from FY 2013 to FY 2012 there is just a 0.4 % increase in Operating and Maintenance costs. Ms. Arnold reviewed Pages 17 through 27 in detail with the Committee. Some of the noted items were that this year's budget includes a decrease in budgeted turnover of 0.3 FTE's to a total of 2.5 FTE's. In accordance with the collective bargaining agreement, salaries of union employees include a 2% COLA along with step increases. NBC's contribution rate to the RI State Retirement System on behalf of union employees decreased from 22.98% to 22.18% and NBC's contribution rate to the State Retirement Health benefit on behalf of union employees increased from 6.74% to 6.86%. This budget also reflects an increase in health insurance premiums of 8.0% which is offset in part by an increase in employee premium co-payments to 16% (based on a percentage of salary). The average budgeted co-pay is 14.78%.

There was discussion between the Committee members and Finance staff regarding the potential impact on the NBC's Budget resulting from the change in the State retirement requirements and pension issues facing the union employees.

Ms. Arnold advised that regarding the Operating Supplies and Expenses, the overall budget for electricity is approximately \$62K lower in FY 2013 due to lower projected kWh usage for both Bucklin Point and IM; which offsets the projected increase for the BNR Facilities at Field's Point of \$1.2 million. The FY 2013 electricity budget reflects a higher supply rate of \$.08635 which is a 6.3% increase to the current supply rate which terminates on January 31, 2013. This rate is conservative the current standard offer is \$.07645. The rate reduction combined with the potential operation of the wind turbines in FY 2013 would significantly reduce this expense.

Ms. Arnold stated that the Bio-solids Disposal budget is \$128K higher due to a 3.12% increase. Overall the budget for chemicals Hypochlorite and Sodium Bisulfite is projected to be \$88,000 lower and that is a result of lower usage. The Bucklin Point Management Contract is budgeted \$50,000 higher and that is a result of a 2.3% CPI Increase. Ms. Arnold advised the Committee that in the presentation booklet there are charts showing the electricity, gas, bio-solids, and chemicals that include the twelve month moving average for each. She noted that natural gas projected usage is approximately level for most of the facilities with the additional usage built in for the new Operations building at Field's Point overall lower expense and lower usage.

Ms. Arnold next discussed the FY 2013 Operating Capital. She stated that some of the larger expenses this year will be for Server Infrastructure for all of NBC, NBC Campus Wide Security and equipment for the Ernest Street Pump Station.

Ms. Giebink reviewed the Debt Service portion of the presentation in detail with the Committee. Noted is that our operating capital outlays are up significantly from prior years basically because we need to make investments in our aging equipment. With respect to debt service, she indicated that this is based on the long-term financial model prepared by the Financial Advisor which ties into Capital Improvement Program which was reviewed and approved by the Board last month. Ms. Giebink also advised that the bottom of Page 29 has a chart which details the Capital Improvement Program.

A motion was made by Commissioner Kimball to present NBC's FY 2013 Draft Operating Budget to the full Board. Commissioner DiChiro seconded the motion and the vote taken by the Finance Committee was unanimous.

5. Adjournment

A motion to adjourn was made by Commissioner Farnum, seconded by Commissioner DiChiro and the Finance Committee meeting adjourned at 1:45 p.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 at the end.

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