

The Narragansett Bay Commission  
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Vincent J. Mesolella  
Chairman

Raymond J. Marshall, P.E.  
Executive Director



**OFFICIAL MINUTES OF:**

Meeting of:	Joint LRP-Finance Committee Meeting
Date:	June 25, 2013
Time:	10:00 a.m.

**MEMBERS PRESENT:**

Robert Andrade, Committee Chairman  
Richard Burroughs  
Mario Carlino  
Jonathan Farnum  
Joseph Kimball  
Ronald Leone  
John MacQueen  
Vincent Mesolella  
Joan Milas  
Alan Nathan  
Michael Salvadore  
Leo Thompson, LRP Chairman

**MEMBERS ABSENT:**

Michael DiChiro

**STAFF AND GUESTS PRESENT:**

Raymond J. Marshall, NBC Executive Director  
Thomas Uva, NBC  
Joanne Maceroni, NBC  
Karen Musumeci, NBC  
Joe Pratt, Louis Berger Group  
Sherri Arnold, NBC  
Angelo Rotella, NBC Commissioner  
Leah Foster, NBC  
Richard Bernier, NBC  
Paul Nordstrom, NBC  
Cynthia Morissette, NBC

Shaylyn McCauly, NBC  
Mark Thomas, NBC  
Deborah Samson, NBC  
Karen Giebink, NBC  
Linda George, RI Senate  
Cecille Antonelli, NBC  
Laurie Horridge, NBC  
Jaime Leigh Overton, NBC  
Jamie Samons, NBC  
Karen Bedard, US Bank  
Talia Girard, NBC

**1. Call to Order**

In the absence of Finance Committee Chairman Robert Andrade, NBC Chairman Mesolella after recognizing a quorum, called the June 25, 2013 Joint Long Range Planning-Finance Committee Meeting to order at 10:18 a.m.

**2. Approval of Minutes – May 21, 2013-Joint LRP- Finance Committee**

NBC Chairman Mesolella asked for a motion to approve the May 21, 2013 Joint LRP- Finance Committee meeting minutes as written. Commissioner Salvadore moved to approve the May 21, 2013 Joint LRP- Finance Committee meeting minutes as written. Commissioner Farnum seconded the motion. The vote taken by the Joint LRP-Finance Committee was unanimous. The motion carries.

**3. Items for Action**

**A. Review of Monthly Financial Statements and Expenditures**

Karen Giebink advised the Committee members that she will be reviewing the May 2013 monthly financial report.

With respect to Budget we are currently spending under budget and project that we will finish the fiscal year under budget. With respect to Personnel FTE's we currently have 253 positions that are filled. Page 2 of the report shows the User Fee Billings and as we discussed in the last Finance Committee meeting, we did see a drop off in the billings post adjustment. Even the gross billings we are looking at billing about 96% of what we were projecting to bill.

Under Item B the Outstanding Debt amount is \$10.5 million, Cash and Investments total \$103.1 million. Page 4 of the report shows that the Variable Rate Demand Bonds are pricing at around 0.13% and the outstanding debt is \$546.5 million.

Ms. Giebink stated that Page 5 shows Capital Funds available total \$53.4 million. She noted that Page 6 shows the Capital Payments by Month and Source and that NBC is spending quite a bit of cash on capital projects right now.

Ms. Giebink advised that the attachments to the Monthly Financial Report include the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets as well as the detailed Budget vs. Actual.

With no further questions this concluded Ms. Giebink's report.

**B. Consideration of Purchase Requisition**

Mr. Marshall stated the Committee members have before them a list of Purchase Requisitions from May that were included as part of the FY13 Budget and are in excess of \$10,000. There are none that require

the Committee's approval. There is also a list of Budget Transfers that are in the Committee Members Package.

C. Consideration of Personnel Actions

None.

**D. Review and Approval of Resolution 2013:28; Narragansett Bay Commission  
FY 2014 Operating Budget**

Chairman Mesolella advised that Ms. Giebink would be reviewing the FY2014 Operating Budget document with the Committee.

She gave members of the Committee a hard copy of the FY2014 NBC Operating Budget.

Ms. Giebink advised that a lot of the detailed information was presented at the Finance Committee Meeting that was held on June 6, 2013.

Page one of the Budget contains the Chairman's Message and it highlights some of the achievements of the Bay Commission during the last year or so as well as the impacts of the NBC CSO Program on shellfishing. It also notes that we are about to embark on yet another phase in the near future of the CSO Program and some of the considerations that need to be brought to mind as we contemplate that.

On Page 3 of the Budget is the Executive Director's message. It provides the highlights of the FY14 Operating Budget Comparison and overall there's a 9% increase in the FY2014 Budget over the FY13 Budget and most of that relates to debt service associated with financing the Capital Improvement Program.

Page 4 of the report is the NBC Outlook and this section of the Budget highlights what the major initiatives are that will be financed through the operating budget in FY 2014. She noted that it provides a nice summary of NBC's objectives and how they tie into the Strategic Plan. Page 9 shows a review of the accomplishments during FY2013 and there were numerous accomplishments last year, the wind turbines came on line, there was a cumulative 524 tons of debris captured from the overflow bypasses, NBC collected over 27,000 samples, a number of awards were earned by NBC, our AA- credit rating from Standard and Poor's was reaffirmed and a number of other accomplishments are noted.

The About the NBC section gives some general information about NBC and its facilities. On Page 14 there is an Organizational Chart and Page 15 the program level operational responsibilities are highlighted by division. You can see that the Administration and Finance Division is 62% of the Budget but that is because of debt service being budgeted in that particular division. Pages 16 and 17 include a description of the Governmental Regulations and other compliance items that we are faced with. Page 17 shows the Field's Point Service Area description and Page 18 shows that there has been a collection of flow through year to date of FY 2013 of 254.3 million gallons as a result of the CSO facilities and Page 18 and 19 have additional discussion on the facilities.

The demographic information begins on Page 20. Interesting things to note are on Page 21, the overall unemployment rate in Rhode Island did decline but it still at the time that the budget was printed it was about 10% and it's also a little disappointing to note that as of 2011, Rhode Island's median household income was lower than the United States median household income for the first time since 2002.

Additional demographic information follows. On Page 23 Brown University you can see is our largest customer at 1.64 % of the total annual user charges. Page 24 shows the shift in the number of accounts by customer class and we've talked about this before how there has been a decline in the number of industrial customers an overall an increase in the number of residential and commercial customers.

Page 26 is the discussion of the Strategic Plan and how that is integrated into the FY 2014 Budget. Major goals are highlighted at the bottom of Page 26. The percentage of actions for achievement by strategic objective are shown in a chart on Page 27 and this is all the information that is in the back of the Budget in the Division Summaries and I will review that briefly later but basically we try to tie all of those objectives in to the Strategic Plan. We have different kinds of measures, we have Input, Output, Efficiency and Outcome measures and those are highlighted on Page 28. Approximately 35% of the Performance Measures are related to Outcome. Also worth noting at the bottom of Page 28 is that 49% of the fiscal year 2014 priorities are related to the core business. We had each section highlight three priorities in the Budget and that is shown in the Division Summary as well.

With respect to the numbers, the Budget Summary begins on Page 33. Overall the Budget is based on a 10.5% increase in User Fees and that was based upon a 7.35% rate increase on January 1, 2013 and a projected 10.06% rate increase on July 1, 2013. Since then the PUC did take action at an open meeting and the rate increase will be slightly lower at 9.66% and that was the result of a modification that they made to the Operating Reserve.

There is no Revenue Fund balance budgeted this year. The miscellaneous income line it's significantly higher, this year and that is because we budgeted \$360,000 for renewable energy credit sales revenue.

With respect to Expenses, Personnel is 7.2% higher, Operating Supplies and Expenses are 1.5% lower, Professional Services are 6.2% higher than last year, the big line item as always is Debt Service and we are budgeting 14.9% more in Debt Service in FY2014 versus last year and that is really the result of financing the Capital Improvement Program. Debt Service coverage is also up 7.5% and Operating Capital Outlays are 4.2% higher than last year. Total Expense is at \$98.6 million and we would with this Budget meet our debt service coverage ratio at 1.28%.

Commissioner Kimball asked what the revenue fund balance is.

Ms. Giebink advised that it is a figure that would have been carried forward from a prior year.

Page 34 the Sources and Uses of Revenue are shown in a graphical format and then we begin with the discussion of all the assumptions on Page 35. We have certain long term guidelines and we have short term guidelines and we went over this in some detail at the June 6, 2013 Finance Committee Meeting.

Committee Chairman Robert Andrade arrives at 10:25 a.m. and will chair the meeting.

Ms. Giebink asked if any Committee members would like her to again go over the assumptions.

Chairman Andrade advised that members of the Finance Committee are familiar with them so unless anyone else would be interested in hearing the assumptions then we should move forward.

Ms. Giebink stated that on Page 37 is a Historical Overview of Revenue and Expenses. Page 38 begins the discussion of the revenue profile including the same items addressed earlier, User Fees are budgeted to reflect the rate increases, there are no BOD/TSS surcharges budgeted because as you know we had requested that those surcharges be eliminated effective January 1, 2013. No Revenue Fund balance is budgeted and miscellaneous income is higher because of the REC's. The rate increase are shown in the

table on the top of Page 39 and you can see that from a historical standpoint the last time that NBC had a rate increase for Operations and Maintenance was for new rates effective on July 1, 2009, which was some time ago. The rate increase that is going into effect on July 1, 2013 approximately 30% of that will be for a rate base adjustment to correct for a declining consumption as well as flat fees.

Page 40 you can see the table that shows basically the adjustment in the rate base the number of meters for non-residential customers that are larger than 2 inches overall we've seen a net decline of 228 meters larger than 2 inches so that is a significant revenue impact. We are also seeing a decline in the consumption rate base of approximately 3.8%. Hopefully those changes will have a positive impact on our billings next year. We will adjust this table that's shown on Page 41 as the actual user fees effective July 1, 2013 will be approximately \$521.00, two dollars less on an annual basis. Non-Operating Revenues are shown on Page 42 with respect to the Expense Profile you can see that debt service represents 50.8% of the Budget. In terms of a comparison year to year on Page 44 you can see that the large cost categories and how they each change from year to year.

Commissioner Nathan asked if we get an increase in billing through the RI Resource Recovery.

Chairman Mesolella asked when we will see that Revenue?

Executive Director Raymond Marshall stated that it probably would be later this year, we met with Resource Recovery a week or so ago they brought us up to date on their project. It's running a little behind schedule or it's not going to be quite as optimistic as they envisioned. So probably sometime late Summer, early Fall, we will start seeing some flow but we will not see a large amount of flow from them initially, that will sort of gradually increase of the next year or eighteen months.

Ms. Giebink advised that this Budget does not include any Revenue from the Rhode Island Resource Recovery because it is too uncertain.

With respect to Personnel, there was a 7.2% increase in the Budget over last year and the budget includes an increase of 2.5 positions. The other related personnel costs were discussed in detail at the Finance Committee meeting on June 6, 2013.

Page 50 shows the Budgeted Operating Capital by Section and a detailed schedule is on Page 240 of the Budget. The budget includes a detailed schedule by cost center that shows the budget account and the individual item that we are anticipating purchasing in 2014. A five year operating capital outlay plan begins on Page 232. Debt Service as I mentioned is the single largest line item in the Budget. Page 53 includes the Budget Philosophy, Process and Policies and not too much has changed in this section. The calendar was updated but the policies really haven't changed from last year. Page 61 includes a discussion of the fund definitions and the financial data and I would like to note that we have three additional supplemental indentures that were adopted in the last fiscal year related to debt issuance.

Page 65 is the Long Term Debt Overview. This section reflects the information from the Capital Improvement Program and rolls it into the model and projects what we anticipate we will need to borrow in the upcoming fiscal year as well as subsequent fiscal years in order to finance the Capital Improvement Program. This is completed in concert with our financial advisor.

Page 66 shows the Sources of Funds and the Uses of Funds are shown on Page 67. Ms. Giebink pointed out that this fiscal year it is not anticipated that the Rhode Island Clean Water Finance will have enough funds for the Capital Improvement Program so the model projects that we would size the debt issuance large enough to finance the FY2014 needs plus the FY2015 needs for the CSO Phase II facilities as well as the Nitrogen Removal facilities to limit the cost of issuance associated with the borrowings. She added

that there is a Resolution for the Finance Committee's approval 2013:29 which would increase the current authorization that we have to issue debt from \$75,000,000 up to \$80,000,000 to accommodate this revised figure. Page 70 shows graphically the debt to maturity and it will drop off significantly in the outer years. Clean Water will only issue debt with maturity up to 20 years so NBC tries to wrap the open market issues around that debt service. Page 71 shows the debt service vs. total revenues and that the debt service as a percent of total revenues is projected to keep increasing and will most likely be over 50% by 2019.

The impact of the CIP on the operating budget is shown on Page 72 and Page 73 has a chart that reflects the projected average annual residential rate and percentage rate increases that take into consideration the Capital Improvement Program, as well as projected operating cost increases as well as the CIP impact on the operating budget. FY2014 shows the 10% rate increase effective July 1, 2013 and that little gray piece is the rate base adjustment, the debt service is the peachy piece and the operations portion is the red piece on the bottom. She stated that we are projecting that we will continue to need rate relief in order to finance the CIP as well as to meet our operating cost increases. Overall NBC is still competitive despite these increases because like all other waste water utilities everyone is facing these same types of capital costs.

Page 75 is the CIP, the Division Summaries begin on Page 137 they were revamped this year and staff did a great job of reworking these documents and adding some additional information and changing the presentation so it is a little bit more appealing.

I would like to point out for example on Page 142 the Performance Data for Executive Affairs Division you can see that the format has been modified so that it is easier to follow how the hierarchy works in terms of the performance measure relating to the particular goal or action and then the core business function or whatever strategic goal it might be applied to. That display is done for each one of the particular cost centers.

The supporting schedules are shown behind the next tab. You have the Budget Resolution. Attached to the Resolution you have Attachment 1 which has a detailed listing of all the budgeted positions and reflects the changes that were discussed in the Personnel Committee. The Budgeted Benefits Comparison is on Page 228, Historical Position Summary is on Page 229, the Detailed Operating Capital begins on Page 230 and the Five Year Operating Capital Plan begins on Page 232. The Fund Organization Matrix is on Page 237 and the Schedule for the CIP begins on Page 238. The Appendix includes as Acronyms, Glossary and we also have the "Mouse-Print" which begins on Page 254 which shows by line item and cost center each particular expense and it also has a comparison year to year. And last but not least on Page 258 we have the Monthly Trust Transfer Amounts that we provide to the Trustee.

That completes the FY2014 Operating Budget Presentation.

Commissioner Burroughs stated on Page 71 the percent of the annual revenue and debt service I am trying to get an idea of what the consequences of building Phase III over half a billion dollars will be on our debt service in the out years how much of our budget will be tied up in that? Is that probably the best representation?

Mr. Marshall stated that while Ms. Giebink is looking for some information the one thing that we are going to be doing after consultation with the Chairman is we are going to be going out for RFQ/P to do a full Phase III reevaluation, what is being proposed, what it is going to cost and what the impacts are going to be on the rates. We hope to get that RFQ/P out this summer and bring before you an action item this Fall that will recommend a firm that would do that evaluation for us and then take Phase III into its design and construction phases as we go into those outer years. Right now I am sure we could run some numbers that would tell you what Phase III as it is currently envisioned how that will impact the user fees

but there is a chance that that will change when we do the full evaluation of Phase III based upon the results of Phase I and II. Does that answer your question?

Commissioner Burroughs advised that that is definitely headed in the direction he is concerned about. His question was if NBC is empowered to look at the water quality benefits achieved using different levels of expenditure. His concern was that getting out the first bit of fecal coliform out is probably one hundred or one thousand times cheaper than getting out the last bit.

There was a short discussion between the NBC Chairman, the Executive Director and the Commissioners regarding CSO Phase III.

Ms. Giebink stated that the projections just show some of the CSO Phase III costs. The bulk of the construction costs are projected for post FY2019.

There were no further questions.

Commissioner Kimball made a motion to approve Resolution 2013:28 Narragansett Bay Commission Fiscal Year 2014 Operating Budget. Commissioner Salvadore seconded the motion and the vote taken by the Joint Long Range-Finance Committee was unanimous. The motion carries.

**E. Review and Approval of Resolution 2013:29; Amended and Restated Resolution for the Purpose of Authorizing the Narragansett Bay Commission to Issue Revenue Obligations in an Amount Not to Exceed \$80,000,000 and Approval to Execute a Supplemental Trust Indenture and Other Matters**

Ms. Giebink advised that the purpose of this Resolution is to increase the revenue bond issuance to a not to exceed amount authorized under Resolution 2013:17 by \$5,000,000. The Board had previously authorized a not to exceed amount of \$75,000,000 at the May 21, 2013 Board meeting. Since that time, staff has worked with the Financial Advisor to update the long-term model, incorporating the new CIP, contracted commitments, anticipated rate relief and other salient factors. Based upon these updates and how this issue may be structured given current market conditions, it is anticipated that NBC may be able to issue in excess of the originally planned amount. This is consistent with the financing plan set forth in NBC's proposed FY 2014 Operating Budget.

Commissioner Farnum made a motion to approve Resolution 2013:29; Amended and Restated Resolution for the Purpose of Authorizing the Narragansett Bay Commission to Issue Revenue Obligations in an Amount Not to Exceed \$80,000,000 and Approval to Execute a Supplemental Trust Indenture and Other Matters. Commissioner Salvadore seconded the motion and the vote taken by the Finance Committee was unanimous. The motion carries.

**F. Review and Approval of Resolution 2013:30; Authorization to Approve a Qualified Pool of Investment Banking Service Providers**

Mr. Giebink advised that the Narragansett Bay Commission (NBC) must finance an extensive capital improvement program over the next six years and, in the absence of additional federal funding, will need to issue revenue bonds to supplement the funding available through the Rhode Island Clean Water Finance Agency. In addition, NBC has approximately \$58.3 million in Variable Rate Demand Bonds that are remarketed weekly. NBC last approved a "pool" of Investment Bankers in 2011.

Accordingly, NBC issued a request for Qualifications/ Proposals (RFQ/P) for Investment

Banking Services to select a qualified pool of underwriters on May 16, 2013 with submittals due on May 31, 2013. NBC received nine responses to the RFQ/P. Two of the responders were interested as co-managers only. The submittals were reviewed and evaluated by the Director of Administration and Finance and NBC's Financial Advisor, PFM, Inc. Based upon this review, it is recommended that Morgan Stanley, U.S.Bancorp, Barclays Capital, Inc., and Janney Montgomery Scott LLC should be included in the qualified pool of Investment Banking Service Providers. In accordance with the resolution, selection of the Investment Banker shall be made by the Executive Director and NBC's Chairman of the Board. The initial service period is two years, which may be renewed for up to two additional years at the NBC's request. NBC may select one or more senior managing underwriter from the qualified list to work with NBC. NBC may also select co-managers for each transaction.

Approval of Resolution 2013:30 Authorization to Select a Qualified Pool of Investment Banking Services Providers is hereby requested.

Commissioner Nathan made a motion to approve Resolution 2013:30, Authorization to Approve a Qualified Pool of Investment Banking Service Providers. Commissioner Salvadore seconded the motion and the vote taken by the Finance Committee was unanimous. The motion carries.

**G. Review and Approval of Resolution 2013:31; Recommendation for Use of Environmental Enforcement Fund**

Committee Chairman Robert Andrade stated that there is one more Resolution to come before the Joint Long Range –Finance Committee this morning. The Narragansett Bay Commission has received a request for Environmental Enforcement Funds to be used toward scholarships that will be awarded by the Leonard Walker Memorial Scholarship Program. The scholarship program was established at the Metropolitan Regional Career and Technical Center (MET School) in Providence in memory of Leonard Walker, a former NBC Commissioner.

Len Walker was both a dedicated NBC Commissioner with a keen interest in protecting Narragansett Bay and a strong proponent of providing educational opportunities to students in our urban center. The NBC honors Commissioner Walker's dedication to these two causes by annually making a contribution in his memory to this important scholarship program. The EEF was established for just this purpose; promoting the environment and education especially within our service area.

We recommend contributing \$2,500 to the Leonard Walker Memorial Scholarship Fund to support the awarding of scholarships to MET School graduates who are continuing their education at the college level.

There are adequate funds available in the EEF and we recommend the approval of Resolution 2013:31 in the amount of \$2,500 for the Leonard Walker Memorial Scholarship Fund.

Committee Chairman Andrade advised that Chairman Meselella would like to speak to this Resolution as it has to do with one of our former Commissioners Leonard Walker.

Chairman Meselella stated that annually we consider the use of Environmental Enforcement Funds and Commissioner Salvadore has been diligent in making certain that we provide the necessary funds for the Leonard Walker Memorial Scholarship Program. Unfortunately we have dwindling amount of funds in our Environmental Enforcement account. Last year we allotted \$3,500 to the Scholarship Program, we

did consider that amount this year on the request but unfortunately the account balance does not provide us the opportunity to do that so we decided that \$2,500 would be appropriate.

Commissioner Salvadore stated that our customers, our ratepayers are doing such a good job in complying that our Enforcement Fund account is drying up. I think we are going to have to rethink how we are going to have to fund these contributions pretty quick because it doesn't look as if any real money is forthcoming. I wish we could do more but under the circumstances we are doing the best we can with what we have.

Commissioner Salvadore made a motion to approve Resolution 2013:31; Recommendation for Use of Environmental Enforcement Funds. Commissioners Milas and Chairman Mesolella seconded the motion and the vote taken by the Joint Long Range-Finance Committee was unanimous. The motion carries.

**4. Other Business**

None.

**5. Adjournment**

A motion to adjourn was made by Commissioner Salvadore seconded by Commissioner Kimball and the Joint Long Range Planning -Finance Committee meeting adjourned at 11:05 a.m.

Respectfully submitted,



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