

The Narragansett Bay Commission
One Service Road
Providence, RI 02905

(401) 461-8848
(401) 461-6540 FAX

Vincent J. Mesoella
Chairman

Raymond J. Marshall, P.E.
Executive Director



OFFICIAL MINUTES OF:

Meeting of:	Finance Committee Meeting
Date:	May 28, 2014
Time:	9:00 a.m.

MEMBERS PRESENT:

Robert Andrade, Committee Chairman
Joseph Kimball
John MacQueen
Vincent Mesoella
Joan Milas

MEMBERS ABSENT:

Mario Carlino
Michael DiChiro
Jonathan Farnum

STAFF AND GUESTS PRESENT:

Raymond J. Marshall, NBC Executive Director
Thomas Uva, NBC
Jennifer Harrington, NBC
Karen Musumeci, NBC
Karen Giebink, NBC
Al Montanari, NBC Commissioner
Shaylyn McCauly, NBC
Laurie Horridge, NBC
Leah Foster, NBC
Art Sheridan, NBC

Joanne Maceroni, NBC
Bruce Campbell, NBC Commissioner
Gail Degnan, NBC
Mark Thomas, NBC
Paul Nordstrom, NBC
Sherri Arnold, NBC
Deborah Samson, NBC
Cecille Antonelli, NBC
Jamie Samons, NBC

1. Call to Order

Finance Committee Chairman Robert Andrade called the May 28, 2014 Finance Committee Meeting to order at 9:20 a.m.

2. Approval of Minutes – April 29, 2014 – Joint LRP Finance Committee

Chairman Andrade asked for a motion to approve the April 29, 2014 Joint LRP- Finance Committee meeting minutes as written. Commissioner Kimball moved to approve the April 29, 2014 Joint LRP- Finance Committee meeting minutes as written. Commissioner MacQueen seconded the motion. The vote taken by the Finance Committee was unanimous. The motion carries.

3. Items for Action

A. Review of Monthly Financial Statements and Expenditures

Karen Giebink advised that the Committee members have before them the April monthly financial report for FY2014.

With respect to Budget vs. Actuals, NBC is currently spending under budget at approximately 81.2%. With respect to personnel, 97% of the budgeted positions are currently filled.

With respect to User Fee billing on page two of the report, NBC is billing slightly under what was projected at about 98%. The May billing was approximately \$7.2 million so the cumulative actual billing is \$82.5 as opposed to the projected billing of \$84.0 million dollars. So, overall the actual billings are not 100 percent of what was projected.

She noted that with respect to receivables, the amount outstanding as of April 30th is \$11.2 million.

She also noted that the cash and investments are shown on page three of her report and they total \$85.2 million dollars. She added that investments are shown at the bottom of the page under Item B.

She noted that page four of the report shows that the Variable Rate Demand bonds continue to price very well at slightly over 0.1%, with pricing currently through SIFMA. She stated that the most recent State Revolving Loan Fund closed on March 6th and that it was a \$45 million dollar loan at a true interest cost of 2.467%. She added that outstanding debt is \$630.3 million.

Ms. Giebink stated that page five of the report shows total Capital Funds available of \$75.4 million. Page six of the report shows the Capital Project Expenditures by month and source and it reflects that NBC is spending most of the 2013 Series C revenue bonds. She added that the Non-Union Defined Benefit Plan assets total slightly more than \$9 million.

Ms. Giebink noted that attached to the Monthly Financial Report are the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position as well as the detailed Budget vs. Actual report.

This concluded Ms. Giebink's report.

Commissioner Kimball had some questions regarding the Non-Union Defined Benefit Plan all of which Ms. Giebink answered.

B. Consideration of Purchase Requisition

Mr. Marshall stated the Committee members have before them a list of Purchase Requisitions greater than \$10,000. All of these items were included in the FY 2014 Budget that was passed in June and therefore none require the Committee's approval.

The members also have a list of budget transfers for the month of April, 2014.

C. Consideration of Personnel Actions

None.

4. Other Business

Review of NBC's Draft Fiscal Year 2015 Operating Budget

Ms. Giebink advised that this is a process that all of the Commissioners are familiar with however this year was a little more challenging because there are a number of unknowns. She added that NBC is in the middle of a rate case right now. She noted that typically NBC would be further along in the rate making process with new rates to be implemented on July 1st which would give us a pretty good idea of where we might end up in terms of an approved cost of service. She added that NBC just received the Division's pre-filed testimony on May 16th so staff is working through that as well as the Collective Bargaining Agreement there are still some unknowns that need to be decided related to that.

She began the review of the presentation that was handed out to the Commissioners. She noted that NBC has spent under budget for the last 21 years and that we follow the GFOA guidelines when preparing the budget. She noted NBC has received the GFOA Distinguished Budget Presentation award for the each of the last 12 years with special recognition for Capital and Performance measures.

The graph at the bottom of page one shows the different integrated processes involved in the preparation of the budget related to the overall financial management of the NBC.

Ms. Giebink then reviewed the Budget Preparation Process with the Committee and noted that the Budget is an ongoing process and that it begins early in August when staff starts to take a look at what NBC's needs may be for the upcoming year. This is because there is a nine month review process with the PUC and it does takes quite a bit of time to prepare a rate case.

She reviewed the Preliminary FY 2014 Budget Projection and it is projected that NBC will finish under budget. Overall, as has been the case for many years, we will finish with User Fees lower than were projected. The overall operating revenues are approximately 2.7% lower than budgeted. The non-operating revenue however is higher by approximately 2.5% and that is primarily the result of higher late charges as well as the sale of the REC's associated with the wind turbines. Expenses are projected to be 1.7% lower for O&M and debt service will be considerably under budget at 9.2% so overall we will more than exceed our debt service coverage requirement.

Ms. Giebink stated that on page 4 of the report shows the projected revenues for FY 2014 versus the Budget. It is projected that the User Fees will be under budgeted levels and on page five is an analysis that explains the difference between the User Fee Projected and User Fee Actuals. She noted that we had budgeted User Fees of \$91.7 million and the actual allowance from the PUC was \$333,000 lower than what we had projected. In addition, consumption fees are projected to be \$1.7 million lower than budgeted and flat fees approximately \$600,000 lower than budgeted. She noted that both of these items should be resolved through the pending rate case and added that NBC filed for consumption based on FY 13 levels and with respect to the flat fees, we should be able to modify our dwelling units and our meters by meter size as part of our compliance filing when we file to implement the new rates.

Ms. Giebink also reviewed the expenses for FY14 and stated that we anticipate we will be finishing under budget with respect to personnel costs primarily the result of turnover as shown on page seven. NBC budgeted personnel turnover at 0.8% and the actual turnover has ranged from 3.1% to 5.4%. She noted that with respect to the non-union retirement plan the Board had passed a Resolution this past fall that would allow us to increase the funding into the non-union retirement plan if there were surplus revenues and we still met our coverage requirement. We have done a calculation of the surplus for this fiscal year and the coverage and we are confident that we can meet the coverage requirements and that we can make an additional contribution up to the maximum level that was suggested by Angell Pension. This projection includes that increased contribution.

Some of the O&M costs are higher than projected. She reviewed in detail the specific line items that will finish over budget which included bio-solids, chemicals and natural gas which included a rate increase in the supply rate of 19% in April of 2014. Electricity is expected to finish significantly under budget as a result of lower than projected usage at Field's Point. This is a result of the new facilities being a more efficient than the older facilities and the wind turbines, which have been very advantageous in terms of reducing our overall need to purchase power from the outside and has more than offset the higher usage at Bucklin Point.

Ms. Giebink reviewed the Debt Service and stated that NBC has continued to benefit from historic low short-term interest rates and NBC will realize interest savings of more than \$1.5 million on the VRDB's. In addition the loan from the RICWFA closed on March 6, 2014 and as a result, the NBC borrowed \$33 million more through the subsidized program and minimal interest rates were incurred therefore NBC issued \$42 million less in revenue bonds which also resulted in interest savings. The revenue bonds were structured with a net premium of \$2.3 million, increasing the proceeds available for construction.

With no questions from the Committee regarding the FY2014 Budget review Ms. Giebink began the presentation of the FY 2015 Operating Budget.

Ms. Giebink stated that the proposed FY 2015 Operating Budget overview begins on Page ten. Overall we are looking at a 1.8 percent change from the prior year. Operating revenues increasing of 1.4%, Non-Operating Revenue 9.7% with respect to Expenses the O&M expense is a 6.3% increase, Debt Service a reduction of 2.1%, Debt Service Coverage, which is just a fall out number, is approximately 3.9% higher and Operating Capital Outlay approximately 5.4% lower than last year.

She noted that the FY 2015 Operating Budget is based upon the Strategic Objectives set forth in the Strategic Plan which is in the back of the Budget document. It includes performance measures that are tied to those strategic objectives and the graph at the bottom of page ten shows how those actions for achievement are tied to those Strategic Objectives. Most of these are related to the core business. Page 11 the Operating Revenue increase is projected to be \$1.275 million, and this is based upon a projection of the final cost of service that will be approved by the PUC. The increase was then prorated because, unless we are able to reach a settlement agreement that would allow for early implementation, the effective date, if subject to a full nine month review will be September 23, 2014. Revenues have been based on our prior year experience. We did make a few minor adjustments, one was for late charges and that was the result of what we have seen so far this fiscal year and the fact that as our billings increase late charges increase as well. The proposed budget also includes a revenue fund balance and based on the projections from the FY 14 operating budget, it is anticipated that NBC will have a surplus this year.

Commissioner Andrade asked for an explanation regarding the projected FY 2014 user fees being \$89 million, and he stated that he knows it is probably because of the PUC case, and the budget for FY 15 is almost \$93 million, how are we going to get to the \$93 million?

Ms. Giebink stated that the revenue increase is based on the pending rate case. She added that there are two different factors associated with the rate increase. One is to adjust for the consumption shortfall which is the reason why we have always been short on revenues because we are never given a proper rate base in terms of consumption because it continues to decline. So one portion of the rate increase would be to address that and the other would be to address increased cost for operations and maintenance expense. She noted that there would also be one additional proposed adjustment to the flat fee units and that this typically happens through the Compliance filing.

She noted that the Personnel costs under Operations and Maintenance Expense are approximately \$1 million higher than last year's budget and the detail on that is to follow.

Page 12 shows the 2015 Budgeted Revenues, Projected User Fees are based upon anticipated Cost of Service. NBC also plans to budget a revenue fund balance of \$600,000 and we are also budgeting \$550,000 in miscellaneous income of that \$450,000 is projected to be received from the sale of Renewable Energy Credits associated with the wind turbines. Page 13 shows the significant changes that are included in this proposed operating budget. She discussed some of the changes related to personnel costs and noted that union salaries reflects a decline of 0.2 percent and that is a result of a number of different factors. She added that the budget includes turnover of 3FTEs and that it contemplates a COLA for union employees. The non-union salaries look significantly higher than last year in part because this year we are budgeting compensated absences which is an increase and a liability associated with employees when they reach retirement age. She noted that non-merit increases are included in the budget as well. She noted that the budget contemplates a traditional health insurance renewal at 15.2% and if this ends up being different staff will modify all the budget figures. She also reviewed the union retirement health employer contribution rate which is lower this year at 6.75% compared to 7.8% last year. Overall the total personnel costs are projected to be 4.7% higher.

With respect to Personnel on Page 14 there is a net increase of 3FTE's- increased turnover to 3 positions and includes 4 new positions. The four new positions are: Union positions are an Electrician at Field's Point, Assistant E& I Tech at Bucklin Point. Non-Union Positions include an O&M Supervisor at Field's Point and Quality Chemist in the Laboratory. She added that the assumptions regarding healthcare benefits, Dental & Vision, and other Benefits, etc. included in the budget are shown in the narrative as well as in the table on Page 14. At the top of Page 15 are the assumptions for the larger operating supplies and expenses and professional services costs. Overall some of the accounts are seeing significant changes. Page 16 shows information related to the Biosolids disposal account and as mentioned earlier the dry ton production at Field's Point continues to climb and we are projecting that it will continue to increase. Bucklin Point dry tons seem to be fairly consistent and we are budgeting a two year average for Bucklin Point so overall we are looking at an increase of \$600,000 for that line item.

Electricity is shown on Page 17 and overall the budget is approximately \$100,000 higher than last fiscal year and that is based upon the updated usage that we have been able to obtain over the last fiscal year. The wind turbine production included in the budget is 5.3 million kilowatt hours. She noted that overall it is interesting to note that even though our electricity usage has gone up the cost has declined. Page 18 Natural Gas usage has been up at all of NBC facilities with the exception of Bucklin Point but the supply rate increase was significant at approximately 19% on April, 2014 so we are budgeting \$109,000 more than we did last year in this line item. Page 19, Field's Point chemicals overall we are budgeting \$70,000 more than last year and that is primarily related to the chemicals that are currently being used at Field's Point. She referred to the chart in the middle of the page and noted that the projected chemical use shows only usage of Bisulfite and Hypochlorite and that is because the contractor had purchased the carbon feed and Sodium Hydroxide last year, but next year NBC will be responsible for purchasing those chemicals. Page 20 the Bisulfite and Hypochlorite charts are shown on this page and we are predicting increase usage of these chemicals.

Page 21, Professional Services this is primarily the Bucklin Point Management Contract and we are including an adjustment for the CPI at 1.94%. She also referred to the chart showing the use of polymer at Bucklin Point. With respect to regulatory expense, Ms. Giebink noted that earlier this year we received an additional PUC assessment and that this has been incorporated that into the regulatory expense line item for FY 2015 so overall our budget is almost \$100,000 higher in FY2015.

Page 22, shows the Operating Capital and the CIP which will be presented later today and is reflected in the table on the chart on the top of Page 23. She noted that NBC is looking forward to a drop off in the pace of construction activity over the next few years and hopefully that will reduce our need to borrow and issue additional debt. She added that in terms of debt issuance, the budget is \$64 million dollars less than what we had planned to borrow in FY 2014. The debt service budgeted in FY 2015 is approximately \$900,000 lower than last year. A great deal of that saving is the result of the NBC's ability to secure \$45 million dollars through the RICWFA in FY 2014 which yielded a significant savings. She also noted that the debt service reflects the modification of the amortization of the VRDBs.

That completed Ms. Giebink's presentation.

There were a few questions from the Committee members regarding how the Regulatory Expense is determined and regarding the rate increase in September.

She did note that they figures will change between now and when the final budget is presented to the Board next month because some additional information will be available.

5. Adjournment

A motion to adjourn was made by Commissioner Kimball, seconded by Commissioner MacQueen and the Finance Committee meeting adjourned at 9:54 a.m.

Respectfully submitted,



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