

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:	June 23, 2015
Time:	10:00 a.m.

MEMBERS PRESENT:

Robert Andrade, Committee Chairman
Mario Carlino
Jonathan Farnum
Paul Lemont
John MacQueen
Vincent Mesoella
Joan Milas

MEMBERS ABSENT:

Michael DiChiro
Joseph Kimball

STAFF AND GUESTS PRESENT:

Raymond J. Marshall, NBC Executive Director
Thomas Uva, NBC
Paul Nordstrom, NBC
Jennifer Harrington, NBC
Sherri Arnold, NBC
Cecille Antonelli, NBC
Leah Foster, NBC
Michelle DeRoche, NBC Commissioner
Harold Gadon, CAC
Michael Stuard, NBC
Gail Degnan, NBC

John Zuba, NBC
Deborah Samson, NBC
Rich Bernier, NBC
Mark Thomas, NBC

1. Call to Order

Committee Chairman Andrade recognizing a quorum called the June 23, 2015 Finance Committee Meeting to order at 10:15 a.m.

2. Approval of Minutes – May 27, 2015 – Finance Committee

Commissioner Andrade asked for a motion to approve the May 27, 2015 Finance Committee meeting minutes as written. Commissioner MacQueen moved to approve the May 27, 2015 Finance Committee meeting minutes as written. Commissioners Carlino and Farnum seconded the motion. The vote taken by the Finance Committee was unanimous. The motion carried.

3. Items for Action

A. Review of Monthly Financial Statements and Expenditures

Karen Giebink stated that she would be reviewing the May 2015 monthly financial report with the Committee. With respect to budget vs. actual expenses, NBC is spending under budget at 90% of the year to date budget and the most significant savings is related to bio-solids as the dry ton production is significantly lower at Fields Point. She noted that NBC is also achieving savings from the wind turbine electricity production at Field's Point as well. With respect to Personnel, currently 96% of the budgeted positions are filled.

She noted on page two of the report, with respect to the User Fee Billings through May 2015, cumulative actual billings have fallen off consistent with prior years. She added that there was an uptick in billings in June, as NBC billed approximately \$7.7 million. She indicated that overall NBC will finish the year strong but not quite at 100% of what had been projected. She noted that the receivables are shown at the bottom of the page and the amount outstanding this year as of May 31st, compared to last year is approximately \$1 million higher. She added that this is primarily the result of the single receivable that was discussed at the last Finance Committee meeting.

Ms. Giebink added that on page three of the report, cash and investments total \$87.1 million and that the investments are shown under Item B.

She referred to page four of the report that shows NBC's long-term debt and noted that the rate on the VRDB's did tick up a little bit but remain very low at 0.1%. She added that long-term debt outstanding is \$608.8 million. On page five of the report, the graph shows that approximately 10% of NBC's debt is in variable rate mode. She added that the total capital funds available are \$36.6 million.

Ms. Giebink referred to the graph that shows capital payments by month and source and noted that construction activity has been relatively moderate compared to the prior year. She stated that the Non-Union Defined Benefit Plan has assets of \$10.8 million.

Ms. Giebink stated that attached to the report is the Statement of Net Position, Statement of Revenue, Expenses and Changes in Net Position, the detailed Budget vs. Actual Report and the monthly budget transfers that took place in May, 2015.

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 greater than \$10,000. All of these items were included in the FY 2015 Budget that was passed in June and therefore none require the Committee's approval.

C. Consideration of Personnel Actions

None.

**D. Review and Approval of Resolution 2015:17; Narragansett Bay Commission
Fiscal Year 2016 Operating Budget**

Ms. Giebink stated that she would be reviewing the NBC's FY 2016 Operating Budget document that the Committee members have before them. She thanked her staff for all their help in putting together this year's budget.

She stated that most of the Finance Committee was present for the NBC's FY 2016 Operating Budget Presentation on May 27, 2015 and noted that there were just a few changes that were made subsequent to that presentation. There was an increase in the Non-Union Retirement expense line item of \$78,000 resulting from funds that became available in certain chemical expense line items due to lower bid prices. Debt service was also updated to reflect accrued interest as opposed to the debt service payments that were originally included in the Finance Committee presentation. This increased the budgeted existing debt by approximately \$400,000. The programmed new debt was reduced by approximately \$1.2 million because of the timing and updated debt service schedules associated with the two planned borrowings from the Rhode Island Clean Water Financing Agency. The net result was a decrease of \$800,000 in budgeted debt service. Because of the way the flow of funds work, these changes resulted in an increase in the debt service coverage of approximately \$800,000 so overall the percent increase in the FY 2016 Budget over the FY 2015 Budget remains unchanged at 3.4%.

Ms. Giebink began to review the FY 2016 Operating Budget document. She stated that the Executive Director's Message begins on page 1 and contains an overview of the FY 2016 vs. FY 2015 Budget. She noted that the purpose of this section is to highlight what is included and funded in the budget and what the priorities are for NBC in terms of the allocation of resources in FY2016.

She presented the material on pages 2 through 12 with the Committee including the FY 2016 Budget Introduction, NBC Outlook, Core Business, Wastewater Treatment Permit Requirements vs. Goals and Wastewater Treatment Nitrogen Seasonal Permit vs. Seasonal Avenue, Comparison of Bucklin Point WWTF Operating Costs, Capital Outlays, Environmental Performance, Financial Management, Large Operating Supply and Expense Accounts, Staffing and Customer Service and Communication, and the Fiscal Year 2015 in Review Sections.

Ms. Giebink stated that one of the significant changes in this year's budget is the transfer of the Bucklin Point Wastewater Treatment Facility Management to NBC from a private contractor and noted on page 3, the chart shows an approximately \$300,000 in savings related to operations and maintenance expense associated with this transition. On the bottom of page 3 she referred to the Capital Outlays chart and stated that there was a 26.2% increase in the operating capital outlays budget in FY2016 over the prior year. She added that funding NBC's capital improvements continues to be the most significant financial challenge on go forward basis and referred to pages 4 and 5 of the document that summarizes the major capital improvements. On page 7 she noted that with respect to FY 2016, the primary change in terms of revenues is a 2.3% increase in user fees effective July 1, 2015 and added that the PUC approved the proposed rate increase in a bench decision on June 17, 2015. She added that NBC's FY 2015 major accomplishments are reflected in a table at the bottom of page 9. She also noted that pages 10 and 11 highlight many of the awards received by NBC in FY 2015 ranging from acknowledging environmental performance and treatment facility management to financial management and reporting recognition.

Ms. Giebink then moved on to discuss the next section of the budget starting on page 13 which is the “About the NBC” section and includes background information about NBC. She noted that page 14 contains the Organization Chart and page 15 highlights the major functions of the Divisions. She added that on page 16 there is a discussion about the regulatory constraints that NBC faces and beginning on page 17 there is information about NBC’s Facilities and Technology. The chart on the bottom of Page 17 shows the achievements of the CSO Phase I facilities and how much flow has been captured as a result of the construction of these facilities.

She noted that pages 20 through 25 include demographic information related to NBC’s service area. She reviewed some of the highlights related to unemployment rates, median household income, etc. She noted that on pages 22 and 23 there is a map of NBC’s service area, a graph showing the percentage of accounts by community, and a table with the ten largest users in the NBC service area, most of which are municipalities or educational institutions. The number one user is the Providence Housing Authority. She noted that on page 24 there is a chart comparing the number of accounts by customer class over the last 14 years and it reflects a decline in the number of industrial accounts and an increase in the number of residential and commercial accounts.

Ms. Giebink reviewed the Strategic Plan and Goals sections on pages 26-31 and noted that this is what guides the allocation of resources and in the Budget.

She referred to the Budget Summary section beginning on page 33 and stated that it includes more detail than what is provided in the budget overview. She reviewed the FY 2016 Sources and Uses charts on page 34 as well as the 10-year historical overview charts on page 35. She added that the charts revealed how significantly user fee revenues as well as debt service have grown over the last 10 years. She noted that the key budget assumptions are listed on pages 36 and 37 and that they were reviewed in detail during the budget presentation to the Finance Committee on May 27th.

Ms. Giebink reviewed the Revenue Profile beginning on page 38 and added that the budgeted user fee revenues are based on the rate base as approved by the PUC in Docket 4478. She noted that there was a slight adjustment in the flat fee rate base as a result of that Docket. She noted that the new rates reflecting the 2.37% increase are to be effective July 1, 2015 and are shown on Page 41. Ms. Giebink noted that the survey at the bottom of the page is the comparison Rhode Island annual residential sewer user charges for 2014 and it shows that NBC’s annual user charges are around the middle of the pack at \$459. She then reviewed the Other Operating Revenue and Non-Operating Revenue beginning on page 42. She advised that NBC is budgeting \$160,000 in restricted unspent special master funds in accordance with the order of the PUC.

Ms. Giebink then directed attention to the Expense Profile beginning on page 43. She noted that the single largest category of expense relates to debt service. On page 45, with respect to personnel costs, Ms. Giebink stated that the FY 2016 amount is approximately \$1.5 or 6.8% higher than the prior year. She added that this is the result of the transition of the management of the Bucklin Point Wastewater Treatment Facility from a private contractor to NBC. There are eight new positions associated with the transition and a chart on page 45 shows the changes in funded positions. She added that the budget also includes a slight increase in the employer contribution to the union pension on behalf of the union employees along with an increase of \$155,000 in the non-union expense line item. The increase in the non-union line item is the result of the increase of non-union positions related to Bucklin Point as well as the increase in funding of this line item in response to the actuarial report that we received from Angell Pension. A 5% percent increase in health insurance premiums was also budgeted in FY 2016.

Ms. Giebink next reviewed in detail Pages 47 through 53 related to Operating Supplies and Expenses and discussed some of the larger line items related to bio-solids, electricity, gas, and chemicals. She noted

one of the biggest changes from the prior year budget was the lower bio-solids dry ton production at Field's Point. This was beneficial to NBC and resulted in budgeting \$825,000 less in this particular line item than last year. She noted that the electricity budget is \$7,000 more than last year as a significant portion of the electricity at Field's Point will be generated from the wind turbines. Natural gas is budgeted \$50,000 lower primarily the result of a lower supply rate. Chemical expense is budgeted \$177,000 lower at Fields Point than the prior year as a result of the Operations staff being able to optimize the treatment processes at both facilities. Bucklin Point chemicals are included in the FY 2016 budget but were previously included in the Bucklin Point Management Contract.

She noted that on page 51, the Operating Capital Outlays make up 4.5% of the FY 2016 operating budget. The Bucklin Point WWTF budget for operating capital doubled to more than \$600,000 as new needs were identified and certain costs previously included in the BP Management Contract are now budgeted separately. Ms. Giebink pointed out that there is a vehicle needed by IM estimated to cost \$350,000 which is the single largest capital outlay item in the FY 2016 budget.

She referred to page 52 and the discussion regarding Debt Service which is budgeted approximately 4.8% higher than last year's budget. It includes \$45.1 million for existing debt and \$1 million for programmed new debt.

She noted that the expenses by Division are discussed on pages 52 and 53.

Ms. Giebink then turned to the next section of the budget beginning on page 55 which is the Budget Philosophy, Process and Policies. She referred to a flow chart on the bottom of page 56 which details the relationship between the budget process and long range planning and the budget calendar listed on page 59. She noted that a new section was added to the budget this year that discusses the rate setting process and is shown on page 60. The financial policies begin on page 61 and last year staff incorporated the compliance measurements into this section. Page 65 shows a chart that has the flow of funds and the 22 supplemental indentures are listed at the top of that chart. She noted that page 66 includes a summary of the major funds included in the indentures and the monthly trust transfers that we are required to make are shown on page 67.

She then referred to the Long-Term Debt section of the budget beginning on page 69. She added that this is where the funding needs from the Capital Improvement Program are incorporated into the long term model and rate projections. She reviewed the funding sources and uses and noted that as a result of negotiations between NBC and RI Clean Water, NBC will receive half of their annual capacity. Accordingly, the plan includes a second, \$34.5 million loan through the RI Finance Agency in FY 2016. Because of the shift in the timing of the CSO Phase III facilities revised borrowing plans do not include the issuance of any additional long-term debt in FY 2017 though FY 2020.

On page 73 the debt service expense is shown by issue and page 74 shows the debt service payments through maturity. On page 75 there is a chart that shows the debt service vs. total revenue and it is interesting to note that debt service as a percent of total revenues is anticipated to decline in FY 2017 through FY 2021.

Ms. Giebink reviewed the discussion on page 76 about the impact of the CIP on the operating budget and noted that with the exception of FY 2016 we are anticipating that the budget will benefit from the undertaking of certain capital improvements and those are primarily related to the generation of electricity. She noted that page 77 shows the projected impact of CIP on sewer user rates and it is projected that the annual residential sewer use charge will continue to increase but at a much more gradual rate. She stated that the CIP has already been reviewed in detail already.

She added that the Division summaries begin on page 137. As an example of what is included in the budget for each Division, she directed attention to the Operations and Engineering Division information beginning on page 179. She noted that the chart shows that the Division comprises 29% of the total budget and the pie chart shows the percent of the total budget that is related to each of the cost centers in the Division. On page 180 there is historical information related to FTE's as well as performance measurements. Page 181 shows historical and proposed budget information related to expenditure by element of expense and by funding source. Page 182 shows information on a cost center basis and includes a description of the program mission and overview, the major accomplishments for 2015 and identification of the top three priorities for the upcoming fiscal year. She noted that this information is included for each cost center in every Division. She noted that detailed information about the cost center's budget is included along with a listing of all the funded positions on page 183. On pages 184 and 185 there is a table showing the actions for achievement by key code. She added that each cost center has these types of measures and includes information as to how successful the cost center was in achieving those goals in the prior years as well as identifying goals for the upcoming fiscal year.

She moved on to the next section of the document which is the Supporting Schedules and includes the Budget Resolution. She pointed out that the FY 2016 Operating Budget is a balanced budget as shown on page 221. She added that there are no significant changes in any the Resolution language with the exception of language in Item 8 d. She explained that last year was the first year that the Board authorized the contribution of additional funds to the Non-Union Defined Benefit Plan whereby if there were unspent funds in the personnel expense line items at the end of the year those funds could be utilized to make an additional contribution to the Plan as long as NBC still met the debt service coverage requirements. This year the proposed wording doesn't specifically limit the surplus funds to the budgeted personnel funds rather it refers to the overall budgeted operating and maintenance funds. This is in response to two things; the updated actuarial report from Angell Pension as well as in anticipation of the reporting requirements related to GASB 67 and 68.

Pages 224 through 227 include a detailed listing of all the budgeted positions by title. Page 228 is a comparison of the budgeted benefits and historical positions are highlighted on page 229. A detailed listing of the operating capital plan begins on page 230 and continues through page 232. The five-year capital outlay plan begins on page 233 and the fund organization matrix begins on page 239.

On page 243 the acronyms glossary begins and the glossary of terms begins on page 249.

Page 256 begins the Operating Budget Detail which has every line item by every cost center in the FY 2016 Budget.

This concluded Ms. Giebink's presentation

Commissioner Lemont motioned to approve Resolution 2015:17; Narragansett Bay Commission Fiscal Year 2016 Operating Budget. Commissioner Milas seconded the motion and the vote taken by the Finance Committee was unanimous. The motion carried.

E. Review and Approval of Resolution 2015:18; Recommendation for Use of Environmental Enforcement Funds

Mr. Marshall advised that 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 **2015:18** in the amount of \$2,500 for the Leonard Walker Memorial Scholarship Fund.

NBC Chairman Mesolella motioned to approve Resolution 2015:18; Recommendation for Use of Environmental Enforcement Funds. Commissioners Andrade, Carlino, Farnum, Lemont, MacQueen and Milas seconded the motion and the vote taken by the Finance Committee was unanimous. The motion carried.

4. Other Business

5. Adjournment

A motion to adjourn was made by NBC Chairman Mesolella seconded by Commissioner Carlino and the Finance Committee meeting adjourned at 10:55 a.m.

Respectfully submitted,



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