

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:	September 29, 2015
Time:	10:00 a.m.

### MEMBERS PRESENT:

Robert Andrade, Committee Chairman  
Michael DiChiro, Esquire  
Jonathan Farnum  
Joseph Kimball  
Paul Lemont, Esquire  
John MacQueen  
Vincent Mesoella

### MEMBERS ABSENT:

Mario Carlino  
Joan Milas

### 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  
Gail Degnan, NBC  
Michael Stuard, NBC  
Kyle J. Connors, Hague, Sahady & Co., P.C.

David Pratt Ward, The Angell Pension Group  
Deborah Samson, NBC  
Lou Blais, CAC  
Laurie Horridge, Esq., NBC

### 1. Call to Order

Committee Chairman Andrade recognizing a quorum called the September 29, 2015 Finance Committee Meeting to order at 10:12 a.m.

## **2. Approval of Minutes – June 23, 2015 – Finance Committee**

Commissioner Andrade asked for a motion to approve the June 23, 2015 Finance Committee meeting minutes as written. Commissioner MacQueen moved to approve the June 23, 2015 Finance Committee meeting minutes as written. Commissioner 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 August 2015 monthly financial report with the Committee. On page one of the report, with respect to the Budget vs. Actual NBC is spending under budget for the first two months of the fiscal year. She noted that 96% of the budgeted positions are filled.

Ms. Giebink advised that on page two of the report, with respect to user fee billings, NBC's billings are strong at this point in the fiscal year and are slightly ahead of projections. She added that the billing figures are prior to adjustments. She also noted that it includes billings to a customer that is in dispute with NBC as has been previously discussed at a prior Finance Committee meeting. The receivables are shown at the bottom of the page at \$12.4 million which is approximately the same amount that was outstanding last year at this time.

Ms. Giebink added that on page three of the report, cash and investments total \$98 million and noted that the relatively high balance is reflective of the fact that we have most of the principal payments held in the debt service fund for payment of the debt service due on September 1. The investments are shown under Item B at \$85.6 million.

Page four of the report, with respect to long-term debt, NBC is pricing currently thorough the SIFMA index at less than .05%. She noted that NBC completed the most recent borrowing through the RI Clean Water Finance Agency on July 30, 2015 and that the loan included \$512,070 dollars in principal forgiveness at an effective yield of 2.549%. She added that total long-term debt is \$649 million of which 9% is in variable rate mode and that the available capital funds are \$81.4 million

Ms. Giebink stated that page 6 of the report shows the capital payments by month and source which indicates that the construction program has slowed down slightly since a peak in January. She added that the Non-Union Defined Benefit Plan has assets of \$10.6 million and that August wasn't a great month in terms of performance with the money weighted performance loss of 3.65%.

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 June, July and August 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 2016 Budget that was passed in June and therefore none require the Committee's approval.

Mr. Marshall advised that any item change in excess of \$50,000 requires the approval of the Finance Committee and we have two items today within the capital operating budget that require that approval.

The first item is for bar racks and a 40 million gallon per day sewage pump at the Ernest Street Pumping Station. The cost for these items was higher than expected, so in order to purchase these items NBC will need to spend an additional \$75,000. We are requesting permission to purchase the items in lieu of the work that was going to be done on the 20 million gallon per day (mgd) pump. Mr. Marshall advised that the 20 mgd pump is still in reasonably good shape and therefore NBC would put off the repair or replacement of this pump until next year. He noted that the money being reallocated is still being spent within the same facility.

The second request is for a building at Bucklin Point. There is a small storage shed/area where we keep the road salt. The State Building Commission is requiring a more substantial foundation for this facility than we thought was necessary. The required improvement will cost an additional \$123,000. We have identified four items within the Capital Budget for FY 2016 that we feel we can reallocate money from for the Salt Building project.

He noted that the reallocation of these funds will not change the bottom line in the FY 2016 Operating Capital Budget.

Commissioner Kimball made a motion to approve the request for the reallocation of capital operating funds in excess of \$50,000. Commissioner Macqueen seconded the motion and the vote taken by the Finance Committee was unanimous. The motion carried.

### C. Consideration of Personnel Actions

None.

As an introduction to the resolutions related to the Non-Union Defined Benefit Plan Financial Reports, Ms. Giebink advised that there are some significant changes with respect to the reporting related to defined benefit plans that will be reflected in this year's audited financial statements.

She added that NBC's Accounting Manager, Leah Foster, will give the Committee an overview of what some of those changes are and how they will impact NBC. She also introduced Kyle Connors who is the lead auditor with the firm of Hague, Sahady & Company, the auditing firm that handled the audit of the defined benefit plan as well as annual audit of NBC financials. Ms. Giebink also advised that Dave Ward from the Angell Pension Group who worked with NBC to provide all the figures related to the disclosure requirements that come in to play this fiscal year is in attendance.

Ms. Foster distributed three different handouts from the Angell Pension Group related to the Narragansett Bay Commission's Non-Union Defined Benefit Plan for fiscal year ending June 30, 2014 and June 30, 2015 and GASB 68 and 67. These handouts included the Financial Disclosure information for the fiscal year ending June 30, 2014, the Financial Disclosure information for the fiscal year ending June 30, 2015 and the Non-Union Defined Benefit Plan Actuarial Valuation as of December 31, 2013 for the Plan year beginning January 1, 2013 and ending December 31, 2013. She noted that all three of the handouts were for reference purposes only.

She advised that Kyle Connors will be reviewing the Defined Benefit Audit and the NBC Financial Audit with the Committee after her presentation.

Ms. Foster stated that there are two new GASB accounting statements, 67 and 68 which drastically change NBC's financial statements. She added that GASB 67 and 68 only apply to the defined benefit plans. NBC has two retirement plans at NBC; one for the Non-Union which NBC administers and one for the Union Employees plan which is administered by the State of Rhode Island. She noted that the new accounting rules affect both plans.

Ms. Foster gave the Committee members a handout entitled The Brave New World of Public Pension Plan Accounting, Implementation of GASB 67 and GASB 68 which she reviewed in detail with the Committee. (Copy attached).

This concluded Ms. Foster's presentation.

- D. Review and Approval of Resolution 2015:20;** Authorization to Approve and Accept the Narragansett Bay Commission Non-Union Defined Benefit Plan Financial Report for Fiscal Year Ended June 30, 2014
- E. Review and Approval of Resolution 2015:21;** Authorization to Approve and Accept the Narragansett Bay Commission Non-Union Defined Benefit Plan Financial Report for Fiscal Year June 30, 2015

Ms. Giebink stated that Kyle Connors of Hague, Sahady & Co., would be making the presentation to the Committee regarding the resolutions.

Mr. Connors advised the Committee that they have two reports in front of them for the NBC's Non-Union Defined Benefit Plan. One dated June 30, 2015 and another dated June 30, 2014.

He stated that he would be reviewing the June 30, 2015 report which would be more relevant in relation to the NBC's June 30, 2015 financial statements. He noted that in the back of the 2015 report there is a section that includes all of information contained in the June 30, 2014 report.

Commissioner DiChiro arrives at 10:30 a.m.

Mr. Connors reviewed with the Committee the Independent Auditors Report, Management Discussion and Analysis, Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, Notes to the Financial Statements, Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Employer Contributions, Schedule of Investment Returns and the Independent Auditor's Report on Internal Control over Financial Reporting, Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing.

Highlights from his presentation included:

1. The responsibilities of NBC Management and the Auditors throughout the audit of the Defined Benefit Plan;
2. That the financial statements are clean, in accordance with GAAP, and there are no material weaknesses or deficiencies in the statements;
3. The total pension liability is \$16.1 million;
4. NBC's fiduciary net position as of June 30, 2015 is \$11.2 million which reflects a 70% funding of the Plan, and a \$4.8 million net pension liability;
5. The NBC Plan is better funded than many other plans in RI:

6. One of the biggest changes this year to the non-union defined benefit plan was the change in the mortality table that NBC was required to implement. The update to the 2014 mortality table was responsible for adding approximately one and a half million dollars to the pension liability;
7. An additional \$500,000 employer contribution was made to the Plan in FY 2015 in accordance with the NBC Board of Commissioners authorization set forth in the FY 2015 Operating Budget Resolution authorizing additional contributions to the Plan if certain criteria are met;
8. The plan assumes a 3% increase in salary over the years and a 6% investment rate of return;
9. There were no significant deficiencies or material weaknesses in NBC's Internal Controls.

There were questions from the Committee members regarding percentage of funding and required notice to employees, mortality tables, the State pension settlement and the amortization period. The questions were answered by Kyle Conners, Hague, Sahady & Co., Karen Giebink, NBC and David Ward, the Angell Pension Group.

There were no further questions.

This concluded the presentation.

Commissioner Farnum motioned to approve Resolution 2015:20; Authorization to Approve and Accept the Narragansett Bay Commission Non-Union Defined Benefit Plan Financial Report for Fiscal Year Ended June 30, 2014. Commissioner Lemont seconded the motion and the vote taken by the Finance Committee was unanimous. The motion carried.

Commissioner Farnum motioned to approve Resolution 2015:21; Authorization to Approve and Accept the Narragansett Bay Commission Non-Union Defined Benefit Plan Financial Report for Fiscal Year June 30, 2015. Commissioner Lemont seconded the motion and the vote taken by the Finance Committee was unanimous. The motion carried.

**F. Review and Approval of Resolution 2015:22; Authorization to Approve and Accept The Comprehensive Annual Financial Report for Fiscal Year 2015**

NBC Chairman Mesolella stated that in the interest of keeping the meetings on schedule the presentation in regard to the Review and Approval of Resolution 2015:22 will be held at the 11:00 a.m. Board of Commissioners meeting.

**4. Other Business**

None.

**5. Adjournment**

A motion to adjourn was made by Commissioner DiChiro seconded by Commissioner Farnum and the Finance Committee meeting adjourned at 10:58 a.m.

Respectfully submitted,



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



# The Brave New World of Public Pension Plan Accounting

Implementation of GASB 67 and GASB 68

# Prior Audits GASB 25/27

- GASB 25: accounting for the plan by the plan
- GASB 27: accounting for the plan by the sponsor
  
- Strong link between the funding and the accounting
- Annual pension cost defined as Annual Required Contribution (ARC) which was provided by actuaries
- Balance sheet – Net Pension Obligation (NPO)
  - NPO equals the difference between the ARC and the actual contribution
  - NBC Non-Union Pension Plan had a “negative” NPO on the balance sheet (contributions > ARC)
  - Union employees’ Pension Plan had no NPO

# Effective FY 2015

- GASB 67 – Financial Reporting for Pension Plans (replaces GASB 25)
- GASB 68 – Accounting and Financial Reporting for Pensions (replaces GASB 27)
- The new standards completely changed pension plan accounting to book the liability of the plans on the financials as opposed to disclosure in the footnotes
- The old standards dealt only with the funding of plan
- The new standards deal with the accounting for defined benefit plans

# Actuaries

- Actuaries provide two separate reports
  1. Actuarial report
    - Plan year-end (PYE) | 2/3 |
    - Identifies funding requirements
  2. “New” Financial Disclosure Information in accordance with GASB 67/68 report
    - Fiscal year-end (FYE) 6/30
    - “Roll forward” the PYE to the FYE
    - Provides the financial disclosure information for the NBC’s financial statements

# New Terminology

- Total Pension Liability (TPL)
  - Actuary accrued liability
- Fiduciary Net Position (FNP)
  - Fair value of plan assets
- Net Pension Liability (NPL)
  - (TPL less FNP)
- Deferred inflows and outflows of resources
  - Essentially unrecognized gains(inflows) and losses (outflows)

# New Terminology

- Measurement date is the date of the Net Pension Liability (can be one year earlier)
  - NBC Non-Union Plan used 6/30/2015
  - State Union Plan used 6/30/2014
- Reporting Date is fiscal year-end
- Discount Rate used in calculating TPL

# Summary of Pension Effect on Financial Statements

Account	Reported in Financial Statement	Non-Union Pension Plan	ERSRI Pension Plan
Pension Liability 6/30/2015	Balance Sheet Liability	4,864,294	15,554,087
Pension Expense (GAAP basis) - Provided in Actuary Report	Income statement Expense	411,046	1,148,282
Pension Expense (Budgetary basis) - Actual Contributions	Budget vs Actual Expense	986,655	1,317,046

# Summary of Pension Effect on Financial Statements

Deferred Outflows (Separate category on balance sheet)	Non-Union Pension Plan	ERSRI Pension Plan
Contribution paid subsequent to measurement date		1,329,983
Changes in assumptions - (Change in Mortality Table)	1,560,180	
Difference between expected and actual experience	210,013	
Difference between projected and actual earnings	261,924	
Deferred Inflows (Separate category on balance sheet)	Non-Union Pension Plan	ERSRI Pension Plan
Changes in assumptions		168,936
Difference between expected and actual experience	150,858	
Difference between projected and actual earnings	371,353	1,193,124

# Summary of Pension Effect on Financial Statements

- Additional Footnote Disclosure
  - Net Pension Liability ( $TPL - FNP = NPL$ )
  - Sensitivity of the Net Pension Liability to changes in the discount rate
  - Pension Expense
  - Deferred Outflows and Deferred Inflows
- Additional Required Supplementary Information
  - 10 Years of information
    - Non-Union Pension plan has two years of information
    - ERSRI Pension plan only has one year of information