

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 24, 2016
Time:	9:00 a.m.

MEMBERS PRESENT:

Robert Andrade, Committee Chairman
Mario Carlino
Joseph Kimball
Paul Lemont, Esquire
John MacQueen
Vincent Mesoella

MEMBERS ABSENT:

Michael DiChiro, Esquire
Jonathan Farnum
Joan Milas

STAFF AND GUESTS PRESENT:

Raymond J. Marshall, NBC Executive Director
Thomas Uva, NBC
John Zuba, NBC
Paul Nordstrom, NBC
Leah Foster, NBC
Sherri Arnold, NBC
Karen Musumeci, NBC

Jamie Samons, NBC
Deborah Samson, NBC
Rich Bernier, NBC
Cecille Antonelli, NBC
Gail Degnan, NBC
Alice Marchessault, NBC

1. Call to Order

Committee Chairman Andrade recognizing a quorum called the May 24, 2016 Finance Committee Meeting to order at 9:12 a.m.

2. Approval of Minutes – April 26, 2016 – Finance Committee

Commissioner Andrade asked for a motion to approve the April 26, 2016 Finance Committee meeting minutes as written. Commissioner Carlino moved to approve the April 26, 2016 Finance Committee meeting minutes as written. Commissioner Lemont 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 April 2016 monthly financial report with the Committee. With respect to the budget, NBC is spending under budget, and it is anticipated that NBC will finish the year significantly under budget due to some of the larger line items coming in below what was projected. She added that this would be reviewed in more detail as part of the proposed budget for FY 2017. The number of positions filled as of April was 255, so 95% of the budgeted positions are currently filled.

On page two of the report, the top item shows the cumulative actual vs. projected billing. It reflects that NBC is billing pretty close to what was projected for the fiscal year. The receivables are shown at the bottom of the page. The amount outstanding as of April 30, 2016 is actually lower than what it was at this point last year, and that is a sign that collection activity is effective.

On page three of the report, cash and investments total \$92.9 million.

Page four of the report, the long-term debt section, the chart at the top of the page shows that the rate for the variable rate demand bonds did tick up a little bit but it's still less than one percent pricing around .04%. She added that there was a tender on \$32.8 million of the VRDB's last week and added that they were purchased by Morgan Stanley. She added that NBC's remarketer said that they had about 50 tenders last week but it was unclear why the market dictated that. At the bottom of the report, outstanding debt is \$624.7 million. She noted that the Chairman and Executive Director this morning signed documents for the next loan from the RI Infrastructure Bank, a \$23 million dollar loan that should close on June 2nd.

Page five of the report outstanding debt, the fixed portion is approximately 91% and the variable portion is 9%. The total Capital Funds available are \$63.5 million.

Page six of the report, the chart shows the capital payments by month and source. NBC is now spending a good portion of the 2015 Series B proceeds as well as restricted funds.

The Non-Union Defined Benefit Plan assets are shown as of April 30th with the activity for the month and value of approximately \$11.98 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 for the period ending March 31, 2016.

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 that are 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.

C. Consideration of Personnel Actions

None.

4. Other Business

Review of NBC's Draft Fiscal Year 2017 Operating Budget

Committee Chairman Andrade advised the Committee that Karen Giebink would be reviewing the draft fiscal year 2017 operating budget.

Ms. Giebink acknowledged her staff Sherri, Gail and Alice as well as Leah for all the help in putting the budget information together.

MS. Giebink noted that on page one there is a description of the way NBC prepares the budget. NBC uses the GFOA Guidelines and accordingly NBC has received the GFOA Distinguished Budget Presentation Award for each of the last 14 years. She noted that staff works to incorporate any comments that are received from the GFOA reviewers into subsequent budget submissions. NBC faces many constraints when preparing the budget, and those constraints are highlighted in the chart on this page.

She referred to page two which contains the budget preparation timeline and noted that the budget has evolved into a year round experience. It begins each July and concludes with the adoption of the Budget in June. Page three contains a summary of the projected finish for the FY16 budget. It is anticipated that it will be an excellent year for the NBC. With respect to the revenues, we are projecting that NBC will have higher revenue than expected and with respect to expenses we expect that NBC will finish significantly under budget overall resulting in a net surplus of \$5.7 million this fiscal year.

Page four of the report has the highlights of the projected FY 2016 revenues. User fees are anticipated to be approximately \$816,000 higher than the budgeted level. Late charges are anticipated to be \$168,000 lower than the budgeted level. With respect to the user fees, on page five there is an analysis of those revenues at the top of the page. We had budgeted \$94.9 million in user fees. Flat fees are projected to be slightly lower due to non-residential customer meter downsizing and a reduction in the number of those customers. She noted that NBC has had higher consumption billings related to RI Resource Recovery as well as Conopco which has been discussed previously with the Committee. Overall, we are anticipating that we will finish the year with revenues that are \$816,000 higher than we had budgeted. She referred to the billable consumption in the table at the bottom of the page and noted that consumption has recovered somewhat. We are projecting a total consumption of 13.8 million HCF which is slightly higher than last year. The consumption increase is attributable to the industrial customer class which is higher than it has been in previous years.

Page 6 has a chart which shows the projected year-end finish with respect to expenses. Overall we are expecting that Operations and Maintenance expense will finish about 6.8% under budgeted levels. With respect to personnel expenses, on page 7 there is a chart that shows turnover and there has been a significantly higher amount of turnover than was budgeted. NBC tends to budget very conservatively because it is hard to predict what is going to happen with turnover. She noted that part of the reason for the high turnover this year is related to the filling of positions at Bucklin Point.

The large operating accounts are shown on page 8. With respect to biosolids, there is a continuing decline in the Field's Point dry ton production and that has resulted in significant savings for NBC. Total biosolids expenses are anticipated to be \$390,000 less than what was budgeted. With respect to natural

gas, actual therms used are projected to be 81,000 less than what was budgeted due to the relatively mild winter and the expense will be \$158,000 lower. Electricity is projected to finish right on budget. Ms. Giebink noted that the figures take into consideration compensation for the period of time that the wind turbines have been down. With respect to chemicals, the only change was the increase in the use of hypochlorite and bisulfite as a result of the UV disinfection system being down at Bucklin Point. Page 9 includes a few other large operating account line items that have been included for your information. These items are expected to finish under budget as well.

Debt service is anticipated to be lower than the budgeted amount. The variable demand bonds have been pricing below 50 basis points so NBC is seeing savings of approximately \$1.5 million. With respect to programed new debt, the RIIB loan planned for last year that did not close until this year and this year's loan will not close until very late in the year. Those combined effects have resulted in programed new debt being \$675,000 less than projected.

Page 10 begins the discussion of the FY 2017 proposed budget which is 2.5% higher than the prior year. She added that the Strategic Plan guides the budget development in terms of priorities and on page 11 there is an overview of the proposed FY 2017 operating budget. Overall revenues are budgeted \$2.6 million higher than last year. O&M expenses are \$940,000 higher than last year, debt service is \$6,547 higher than last year, debt service coverage shows a slight increase and there is an increase in operating capital of \$838,000.

Page 12 shows the FY 2017 budgeted revenues. With respect to user fees, they are budgeted 2% higher due to the 1.53% rate increase effective July 1, 2016, projected higher consumption revenues from those two accounts that were mentioned earlier and lower non-residential flat fee revenues resulting from the changes in the size and number of non-residential meters. Other revenues have also been adjusted to reflect a decrease in late fee revenues, a higher transfer from operating capital, the elimination of a budget revenue fund balance as well as increases in miscellaneous revenues for the LED replacement project financial incentive and the wind energy development turbine REC sales. This year we have seen a more significant impact from the capital improvement program on the operating budget in terms of revenue, expenses and savings.

The table at the top of page 13 shows the budgeted user fee revenue by customer class as well as consumption and flat fees. The other revenues are shown in the chart which shows that late fees are budgeted at a lower level in FY 2017 reflecting NBC's collection activities. The most notable changes are the increase in the transfer for operating capital, REC sale revenue anticipated from the wind energy turbines of \$387,000, and the National Grid financial incentive for energy efficiency projects.

Page 14 shows adjustments to the proposed budgets that were submitted by the various cost centers totaling \$524,000. Page 15 begins the discussion regarding the significant changes in expenses. The priorities are tied to the Strategic Plan and we are anticipating a 2.3% percent increase in O&M. She added that NBC modified the operating capital outlay policy to increase the threshold from \$2,500 to \$5,000 and the minimum useful life from 2 years to 3 years. She added that NBC also has an asset management policy which has been utilized to identify short term capital needs and long term asset replacement plan and noted that the other significant factor that is impacting the operating budget this year is the CIP.

Page 16 has information about the personnel budget. The proposed budget includes an increase of two FTE's for the Bucklin Point Wastewater Treatment Facility and a switch in terms of funding of a union and non-union position. Overall, there is a net increase in the number of funded positions from 268 to 270. Personnel line items include the contracted union step increases and 2.75% COLA and a comparable level merit increase of approximately 3.5% for non-union employees. The NBC's contribution rate to the

state retirement plan on behalf of the union employees has increased from 24.64% to 26.34%. The employer contribution to the state retirement health benefit for union employees is budgeted at the same rate as the actual rate this year of 5.97%. Additional funds were also budgeted for the non-union retirement plan and we are hopeful that we will receive the actuarial report in time to adjust that figure to be more in line with the maximum funding that will be allowed for the plan. The budget reflects an increase in health insurance premiums of 13%. The average premium co-pay we are budgeting is 20% and the wellness benefit budgeted per employee is \$400. The dental insurance premium is budgeted 6% higher than last year.

Page 17 highlights the impact of the CIP related to projects that will be completed in FY 2017. She noted that Sherri Arnold will be discussing this in more detail when she reviews the CIP with the Board today. The tables show how we have incorporated the CIP impacts into the operating budget. Overall we are projecting increased revenue of \$588,528 resulting from the sale of RECs generated from the wind energy development turbines project plus the financial incentive from National Grid for the energy efficiency upgrades project. Increased expenses are projected from the new Water Quality Science Building as well as the Wind Energy Development turbines. Savings of \$142,403 are also projected related to not maintaining the old lab building, electricity savings of \$737,000 from the wind turbines and \$190,536 from the energy efficiency upgrades.

Page 18 has information related to the large operating supplies and expense accounts. The biosolids disposal line item is shown on Page 19. The budget is based on 10,413 dry tons for FY 2017. The Field's Point dry tons are budgeted at a level slightly higher than what we are projecting that we will produce this year to be conservative. With respect to Bucklin Point it does look like there is an upward trend in biosolids production. She added that it also includes a projected a disposal rate based on upon a CPI adjustment. She referred to the electricity account information on page 20 and noted that this year is challenging to determine the budget amount because there are so many moving pieces. The budget is based on a similar level in terms of electrical use and takes into consideration the energy efficiency upgrades that will be implemented through the capital project with the LED lights as well as the energy that will be produced from the turbines here at the NBC property as well as the wind energy turbines that will be located off site. She noted that his line item has really dropped significantly over time and this is a testament to all the innovative projects that have been undertaken by NBC to pursue renewable energy.

Referring to page 21, the natural gas budget is conservative with therms of approximately 341,052 and a supply rate that is 4% higher than the actual rate this year. The resulting budget is \$365,000 for natural gas.

Page 22 contains a summary of the chemicals used at Field's Point and Bucklin Point with a total budget of \$796,000.

She referred to page 23 which shows the operating capital. The budget has a significant increase in the amount of operating capital this year including the replacement reserve which is \$1 million higher. Administration & Finance has an approximately \$400,000 increase in operating capital and Operations & Engineering there is a \$256,000 increase in the budgeted operating capital. Some of the large line items in Finance include a user fee rate study, a laboratory information management system application, and the customer service application. NBC is also awaiting the arrival of a vehicle for inceptor maintenance that costs \$350,000. Since we are not sure when we will receive the vehicle we are including this item in the FY 2017 budget as well. If we receive the vehicle before the end of the current FY the FY 2017 budget will be reduced by that amount.

Ms. Giebink advised that there is detail in the back of the booklet that starts on Page 27. It has the operating capital outlays for FY 2017 as well as the five-year operating capital outlay plan that begins on

Page 31. Finance and accounting have spent a lot of time working with the various cost centers to review their operating capital and will be giving more attention to this in the upcoming fiscal year as well to fine tune the process and the planning that is associated with that.

Page 25 Debt Service is budgeted only \$6,547 higher than last year. We are not anticipating borrowing any money until FY 2020. The debt service schedule is shown at the bottom of the page. The RI Infrastructure Bank is going through a couple of refundings which are anticipated to close shortly so actual debt service might be slightly lower. On Page 26 you can see from the chart that the debt service budget is at the same level as last year. The CIP table in the middle of the page is a summary of the information that Sherri Arnold will be reviewing in the CIP.

The chart at the bottom of the page shows the projected rate increases and annual residential charge. Based upon the current model, the preliminary projections are that we will not need a rate increase until FY 2021. She noted that this has a lot to do with the additional revenues that are anticipated not only from the REC's but also from the Johnston sewer interceptor expansion and some other programs that are in the CIP that will generate revenue for NBC.

This completed Ms. Giebink presentation.

Commissioner Kimball asked who will conduct the NBC rate study that was discussed on Page 24.

Ms. Giebink advised that an RFQP would be issued for that item to have an outside party look at user fees. She stated that she would meet with the Chairman and the Executive Director to get some direction. That is something that hasn't been done for quite some time so with Phase III and affordability it is important.

Commissioner Lemont stated that on Page 16, it states that the budget will also include funding for a number of grade changes.

Ms. Giebink stated she believed that those are primarily related to non-union employees.

Mr. Marshall advised that there are a couple of those that are related to union upgrades. We had some desk audits that were requested by employees through the collective bargaining agreement as it currently stands. NBC brings in an outside entity The Employers Association to do those audits for us.

Commissioner Andrade asked if the health insurance increase of 13% is set in stone.

Mr. Marshall advised that we are negotiating it now. There is a chance that it could be a little lower but NBC has had some very large claims over the last year or two that has driven the rate up. We don't believe it will be any higher than 13%.

Commissioner Andrade advised that in one part of the budget it says that the union steps and COLA's will result in an increase of 2.75%. On page 15 the union salary increase is 5.5%.

Ms. Giebink stated that there are two factors, the COLA is 2.75% and step increases average around 2%. This is in addition to the budgeting of two new positions at \$100,000. She noted that not everyone is entitled to a step but we have a lot of new employees.

Commissioner Carlino asked if the Johnston expansion or Citizens bank was included in the projection or in NBC's user fees in 2017.

Ms. Giebink advised that it was not included in 2017 but will be included in future years. NBC would not include the revenue until the project is complete. It does show up in the actual and projected rate increase charts because we have a model that inputs all the potential revenues and expenses and the rate increase piece would follow that.

Commissioner Carlino asked if there are any restrictions on what NBC can do with the \$5.7 million surplus.

Ms. Giebink advised that the PUC and NBC's Trust Indenture restrict the use of NBC surplus funds.

Commissioner Carlino asked what NBC is allowed to do with the surplus.

Ms. Giebink advised that basically it flows back into the revenue fund and then it goes through a "waterfall." She added the NBC does not have the authority to fund an unrestricted fund but that is something that could be contemplated or if the Board was interested in establishing and funding some of the reserve funds that are currently unfunded it would be something NBC would need to address with the PUC.

Commissioner Carlino asked if NBC is allowed to have a rainy day fund.

Ms. Giebink advised that there is structure in the Trust Indenture to do that but it is her understanding that NBC does not have the authority to fund it. We would have to check with Bond counsel.

Commissioner Carlino asked if we could use that money to pay down debt where we have higher rates.

Ms. Giebink stated that the only rate in theory that we could pay down would be the variable rate debt that we are paying .04% and doesn't think there would be much advantage to that at this point.

There were no further questions from the Committee.

5. Adjournment

A motion to adjourn was made by Commissioner Kimball seconded by NBC Chairman Mesolella and the Finance Committee meeting adjourned at 9:58 a.m.

Respectfully submitted,



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