



Fazioli, Senior Managing Consultant with Public Financial Management, Inc. (“PFM”).

Ms. Giebink testified that the NBC is requesting Division approval to enter into long-term debt and issue revenue bonds for an amount not to exceed \$41,753,500.<sup>1</sup> She related that the loan will again be from the RICWFA and will be used to fund capital projects. As in previous dockets, Ms. Giebink explained that RICWFA is a state agency that administers the State Revolving Loan Fund program that provides low interest loans to qualified borrowers. Ms. Giebink noted that the Division has approved numerous applications from NBC to enter into long-term debt and effectuate borrowings from the RICWFA.

Ms. Giebink also testified that unlike in previous borrowings through the RICWFA, the proposed loan will allow for a 30-year amortization, which she related, “...is more consistent with the useful life of the assets that will be financed.” She also added: “this loan includes \$512,070 in principal forgiveness for ‘green projects’ related to the bio-gas reuse project.”<sup>2</sup>

Ms. Giebink next testified that the loan proceeds will be used for capital projects, including: CSO Phase II Facilities – Construction, CSO Phase III Facilities – Design, Regulatory Compliance Building – Construction, Bio-gas Reuse Project, and NBC Interceptor Projects, including the Moshassuck Valley Interceptor. She related that additional projects have also been identified as being funded fully or partially with the proceeds from this bond issue, including BPWWTF Nitrogen Removal, FPWWTF Tunnel Pump Station

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<sup>1</sup> NBC Exhibit 1, Giebink Testimony, p. 1-2.

<sup>2</sup> Id., p. 2.

Improvements, System-wide Facilities Planning, Interceptor Easements, and the Providence River Siphon Replacement. Ms. Giebink testified that all of these projects are included on the Rhode Island Department of Environmental Management's Project Priority List. She also explained that the proceeds of the loan will also be used to pay RICWFA fees and bond issuance costs.<sup>3</sup>

In her pre-filed direct testimony, Ms. Giebink had stated that NBC's existing rates did not generate sufficient revenues to meet the debt service and debt service coverage requirements associated with the proposed borrowing. She also indicated that NBC had a rate filing before the Rhode Island Public Utilities Commission ("Commission"), in Docket No. 4562, wherein NBC had requested the needed rate relief. As an update, during the hearing Ms. Giebink testified that the NBC's rate filing with the Commission was recently approved on June 17, 2015 and that the Commission's approval has now provided the needed debt service related to this borrowing.<sup>4</sup>

Ms. Giebink next testified that other than the instant petition for approval from the Division, the NBC has met all of the other requirements needed to complete the proposed transaction. She related that the NBC submitted its loan application with the RICWFA in April, 2015 and that the RICWFA had approved the loan application on May 11, 2015. Ms. Giebink also testified that the NBC's Board of Commissioners had passed a resolution

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<sup>3</sup> Id.

<sup>4</sup> Id., p. 3 and Giebink Exhibit KG-1 and hearing transcript.

authorizing the NBC to borrow an amount not to exceed \$41,753,500 on December 9, 2014.<sup>5</sup>

Before discussing the instant loan proposal, Mr. William Fazioli offered some background information on PFM and on the independent financial advisory services that PFM provides to public entities. Mr. Fazioli related that over the last 39 years, PFM has grown into a national firm with over 500 employees in 32 offices across the United States. He testified that for the “17<sup>th</sup> consecutive year, PFM has maintained its position as the number one financial advisor in the industry, providing financial advisory services in more than 783 transactions for a total par amount in excess of \$48 billion in 2014.” Mr. Fazioli added that in terms of wastewater issuers, “PFM has been the top ranked financial advisor in this sector for several years as well while representing other large wastewater operators including the Massachusetts Water Resources Authority and the DC Water and Sewer District.”<sup>6</sup> Mr. Fazioli testified that PFM was appointed in 2012 to serve as Financial Advisor to the NBC by its Board of Commissioners. He related that during this time he has gained experience working with the NBC and is familiar with NBC’s borrowing history and credit needs.<sup>7</sup>

With respect to the instant matter, Mr. Fazioli indicated that he has been asked to provide testimony in support of NBC’s planned borrowing from the RICWFA and the current interest rate environment. At the outset, Mr. Fazioli

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<sup>5</sup> Id., p. 3 and Giebink Exhibit KG-2.

<sup>6</sup> NBC Exhibit 1, Fazioli Testimony, p. 1.

<sup>7</sup> Id., p. 2.

related that the proposed revenue bonds are amortized over 30 years with a final maturity in or about 2044 and will be structured as level debt with the traditional RICWFA subsidy of 1/3 of the market rate. Mr. Fazioli also noted that the NBC is eligible for \$512,070 in principal forgiveness related to its 'green' bio-gas reuse project. He related that on "an aggregate basis, it is anticipated that the borrowing will not exceed a market rate of 4.289%, which would result in a projected subsidized rate of approximately 2.704%." Mr. Fazioli calculated the effective rate on the loan to be 2.611%, which, he related, reflects the 33% interest rate subsidy and the \$512,070 of principal forgiveness.<sup>8</sup>

Mr. Fazioli next provided an update on current market rates, the yield curve, NBC's credit rating and how these factors influence NBC's options. He testified that interest rates remain relatively low and the credit spreads remain narrow for high credit quality issuers with the yield curve for a "AA" credit rating only 23 basis points higher than a "AAA" credit rating as of May 19, 2015. Mr. Fazioli related that the value of a "AA-" credit rating is tangible and will result in cost savings for ratepayers compared to a lower quality credit. He added, that the yield curve remains relatively flat in the long term with the spread between 20- and 30-year interest rates at about 22 basis points for a "AA" credit.<sup>9</sup> Mr. Fazioli offered a graphic to demonstrate these variations in the yield curve.<sup>10</sup>

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<sup>8</sup> *Id.*, p. 2 and Fazioli Exhibit WJF-1.

<sup>9</sup> *Id.*, p. 3.

<sup>10</sup> *Id.*, pp. 3-4.

In his concluding comments, Mr. Fazioli opined that NBC plans to price its bonds in early July, 2015. He related that to facilitate this timing, Division approval is needed by July 1, 2015 so that the Preliminary Official Statement can be mailed to investors approximately one week prior to pricing.<sup>11</sup>

In response to the instant filing, the Division's Advocacy Section sponsored a June 10, 2015 memorandum from Mr. Thomas S. Catlin, of Exeter Associates, Inc., a rate consultant who has appeared as an expert witness for the Division in NBC rate proceedings before the Public Utilities Commission. In the memorandum, Mr. Catlin concluded that the NBC would have sufficient debt service in its rates to cover the proposed borrowings if the Commission approved the NBC's then pending rate filing.<sup>12</sup> After a brief cross-examination of the NBC's witnesses, and in view of the Commission's recent approval of the NBC's rate filing in Docket No. 4562, the Advocacy Section stated for the record that it was satisfied from the evidence presented, that the NBC had met the requisite burden of proof set forth in R.I.G.L. §39-3-15, et seq. and that the proposed borrowing is in the public interest.

### FINDINGS

Predicated on a thorough examination of the record in this matter, the Division finds that the NBC's application seeking approval to issue long-term debt for a RICWFA borrowing, not to exceed \$41,753,500, is reasonable and in the best interest of ratepayers.

Now, therefore, it is

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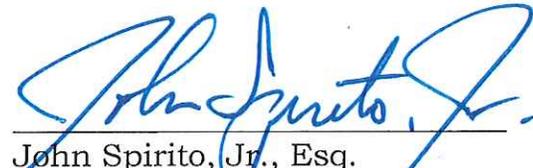
<sup>11</sup> Id., p. 6.

<sup>12</sup> Advocacy Section Exhibit 1.

(21956) ORDERED:

1. That the Narragansett Bay Commission's May 22, 2015 application seeking approval to issue long-term debt for a RICWFA borrowing, not to exceed \$41,753,500, is hereby approved as filed.
2. That the Division hereby makes this approval contingent upon the NBC's use of the debt service allowance previously approved by the Public Utilities Commission, or if subsequently required, by additional debt service allowances approved by the Public Utilities Commission.

DATED AND EFFECTIVE AT WARWICK, RHODE ISLAND ON JUNE 29, 2015.

  
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John Spirito, Jr., Esq.  
Hearing Officer

APPROVED:   
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Thomas F. Ahern  
Administrator