

## Division of Public Utilities and Carriers

### Memorandum

To: Luly Massaro  
Division Clerk

Date: 3/10/15

From: Alberico Mancini  
Division of Public Utilities and Carriers

Subject: Division Docket D-15-03 Narragansett Bay Commission's Approval for Long Term Debt.

On February 18, 2015, the Narragansett Bay Commission (NBC) filed an *Application for Approval to Enter Long-Term Debt and Issue Revenue Bonds to Effectuate the Refunding of the NBC \$42,500,000 Wastewater System Revenue Bonds, 2007 Series A*. The filing included Direct Testimony from Karen Giebink, Director of Administration and Finance for NBC, and William Fazioli, Director with Public Financial Management, Inc. (PFM).

NBC is seeking approval to refinance the 2007 Series A Bonds with the issuance of new bonds that will generate significant savings to ratepayers due to lower interest rates available under current market conditions. The 2007 Series A bonds have a first callable date of February 1, 2017 at 100% of the par amount but current market conditions make it advantageous for NBC to issue refunding bonds prior to the February 1, 2017 call date. If market conditions remain at a level that it is advantageous to do so, NBC will issue new bonds in the near term, prior to the February 1, 2017 call date and the proceeds will be used to purchase State and local government securities which will be held in an escrow account. All debt service payments on the 2007 Series A bonds will be paid from this escrow account until the February 1, 2017 call date.

NBC estimates that the refinancing could achieve gross budgetary savings of nearly \$4.9 million and net present value debt service savings of approximately \$3.4 million. This would equate to 8.1% of refunded bond principle which well surpasses the 3% industry standard for executing an advance refunding transaction, according to the filing. These projected savings are net of all expenses and costs related to the refunding bond issue and the final maturity date of the new bonds will remain February 1, 2037, which is the same as the 2007 Series A bonds.

Based on current market conditions, NBC reports that the proposed payment structure would decrease the present True Interest Cost (TIC) from 4.64% for the currently outstanding 2007 Series A Bonds to an estimated 3.66% for the new bonds. NBC notes that there would be approximately 631 days from the closing date of the proposed bonds to the February 1, 2017 call date for the 2007 Series A Bonds. Due to the interest rate earned on the escrow account being lower than the borrowing rate on the new debt, the resulting negative arbitrage would reach \$1.8 million of which has been included in the overall calculation of savings related to the refunding bond issue. Despite the negative arbitrage issue, NBC would still achieve a net present value debt service savings of approximately \$3.4 million. NBC could choose to defer the closing date to reduce the time period of the new bond issuance and the

call of the existing bonds and the associated negative arbitrage, but that carries with it the risk that interest rates could rise and diminish or eliminate the savings that would be obtained under current market conditions.

NBC witness Karen Giebink has testified that current rates are sufficient to service the debt issuance proposed in the filing.

The Advocacy Section has reviewed NBC's *Application for Approval to Enter Long-Term Debt and Issue Revenue Bonds to Effectuate the Refunding of the NBC \$42,500,000 Wastewater System Revenue Bonds, 2007 Series A* and recommends that it be approved as it is in the best interest of ratepayers.

Cc: Thomas Ahern  
Steven Scialabba