

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 \$23,000,000.¹ She related that the loan will again be from the RIIB and will be used to fund capital projects. Ms. Giebink noted that the Division has approved numerous applications from NBC to enter into long-term debt and effectuate borrowings from the RIIB (formally the Rhode Island Clean Water Finance Agency).

Ms. Giebink testified that the proposed loan is similar in structure to nearly all of the loans through the State Revolving Fund (SRF) program, and will be structured with a traditional 20-year amortization. She also related that the NBC anticipates that this loan will be at the traditional subsidy of 1/3 of the market rate and there are no principal forgiveness components to this loan.

Ms. Giebink next testified that the loan proceeds will be used for capital projects, including: design of the CSO Phase III Facilities, improvements to the Field’s Point Wastewater Treatment Facility Final Clarifiers, the Moshassuck Valley Interceptor Replacement, Bucklin Point Wastewater Treatment Facility Flood Protection, the Blackstone Valley Interceptor (BVI) Easements and Phase II of the Field’s Point Wastewater Treatment Facility Blower Improvements. She also related that the funds from this borrowing may also be used to finance NBC Interceptor Easements and Improvements to CSO Interceptors and other

¹ NBC Exhibit 1, Giebink Testimony, p. 1-2.

studies. Ms. Giebink testified that all of these projects are included on the Rhode Island Department of Environmental Management's 2016 Project Priority List. She also explained that the proceeds of the loan will also be used to pay RIIB fees and bond issuance costs.²

In her pre-filed direct testimony, Ms. Giebink stated that NBC's existing rates do not generate sufficient revenues to meet the debt service and debt service coverage requirements associated with the proposed borrowing. However, she also indicated that NBC has a rate filing before the Rhode Island Public Utilities Commission ("Commission"), in Docket No. 4602, wherein NBC has requested the needed rate relief. She testified that the filing provides for a July 1, 2016 effective date.³

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 RIIB on April 2, 2015 and that the RIIB had approved the loan application on January 15, 2016. Ms. Giebink also testified that the NBC's Board of Commissioners had passed a resolution authorizing the NBC to borrow an amount not to exceed \$36,000,000 on December 15, 2015.⁴

Ms. Giebink explained that the proposed borrowing is less than the RIIB approved amount of \$36,000,000 due to the fact that NBC submitted its loan

² Id., p. 2.

³ Id., p. 3 and Giebink Exhibit KG-1 and hearing transcript.

⁴ Id., p. 3 and Giebink Exhibit KG-2.

application nearly a year ago on April 2, 2015, which was prior to the completion of the revaluation of the CSO Phase III program and the selection of an alternative. She related that the selected alternative for Phase III of the CSO program will now be completed over a longer period of time and therefore the program's costs have shifted outward. Ms. Giebink testified that based upon the updated cash draw schedules, the demonstrated need for the 24 months following the debt issuance was lower, and that as a result, the amount of NBC's loan request was reduced to \$23,000,000.⁵

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 40 years, PFM has grown into a national firm with over 500 employees in 32 offices across the United States. He testified that for the "17th 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 \$74.9 billion in 2015." 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."⁶ 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

⁵ Id., p. 3.

⁶ NBC Exhibit 1, Fazioli Testimony, p. 1.

gained experience working with the NBC and is familiar with NBC's borrowing history and credit needs.⁷

With respect to the instant matter, Mr. Fazioli indicated that he has been asked to provide testimony in support of NBC's planned \$23,000,000 borrowing from the RIIB. At the outset, Mr. Fazioli related that the proposed revenue bonds are amortized over 20 years with a final maturity in or about 2037 and will be structured as level debt with the traditional RIIB subsidy of 1/3 of the market rate. He related that on "an aggregate basis, it is anticipated that the borrowing will not exceed a market rate of 4.208%, which would result in a projected effective subsidized yield of approximately 2.475%."⁸

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 at near historic lows enabling governmental issuers to borrow at favorable rates; and that the credit spreads remain narrow for high credit quality issuers with the yield curve for a "AA" credit rating only 2 to 23 basis points higher than a "AAA" credit rating as of February 25, 2016. 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 10 and 20 year interest rates at about 22 basis points for a

⁷ Id., p. 2.

⁸ Id., p. 2 and Fazioli Exhibit WJF-1.

“AA” credit.⁹ Mr. Fazioli offered a graphic to demonstrate these variations in the yield curve.¹⁰

In his concluding comments, Mr. Fazioli opined that NBC plans to price its bonds in April, 2016. He related that to facilitate this timing, Division approval is needed by April 14, 2015 so that the Preliminary Official Statement can be mailed to investors approximately one week prior to pricing.¹¹

At the conclusion of its direct case, counsel for NBC stated that the Commission is scheduled to conduct a public hearing in the NBC’s rate case, in Docket 4602, on Monday, April 4. He added that due to the timing constraints associated with the instant borrowing, the Commission may issue a bench decision on Monday approving the concomitant debt service request linked to the NBC’s borrowing proposal in this docket. If that occurs, he requested that the Division incorporate news of that approval in the Division’s final decision in this docket. The Division granted this request.

In response to the instant filing, the Division’s Advocacy Section sponsored a March 30, 2016 memorandum from Mr. Alberico Mancini, a Division Rate Analyst, who expressed support for NBC’s proposed borrowing. In his memorandum, Mr. Mancini states that after reviewing the instant filing from the NBC, the Division, along with its consultant, 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

⁹ *Id.*, p. 3.

¹⁰ *Id.*, pp. 3-4.

¹¹ *Id.*, p. 6.

Commission, “has confirmed that the \$23 million of the loan proceeds is expected to be used to meet capital requirements in the Rhode Island Department of Environmental Management’s 2016 Project Priority List.”

Mr. Mancini also confirms that NBC’s current rates are not sufficient to meet the debt service on this loan. However, Mr. Mancini states that “the Division believes that the debt service on this loan can be satisfied by the allowance for debt service included in rates and recommends approval... as long as the NBC’s request in Docket No. 4602 is approved by the Public Utilities Commission.”¹²

After a brief cross-examination of the NBC’s witnesses, and in view of the pending NBC rate filing before the Commission in Docket No. 4602, 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 through a RIIB borrowing, not to exceed \$23,000,000, is reasonable and in the best interest of ratepayers.

As accurately anticipated by NBC, the Division also notes that the Commission approved the NBC’s rate request in Docket 4602, through a bench

¹² Advocacy Section Exhibit 1.

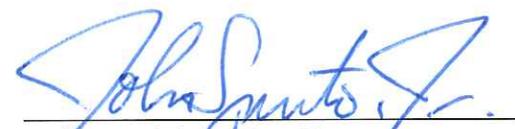
decision issued on April 4, 2016. The Division hereby memorializes this fact in response to the NBC's request for same.

Now, therefore, it is

(22369) ORDERED:

1. That the Narragansett Bay Commission's March 3, 2016 application seeking approval to issue long-term debt through a RIIB borrowing, not to exceed \$23,000,000, 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 APRIL 5, 2016.



John Spirito, Jr., Esq.
Hearing Officer

APPROVED: 

Thomas F. Ahern
Administrator