

Giebink, the NBC's Chief Financial Officer; and Mr. William J. 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 \$45,000,000.¹ 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). She related that subsequent to these approvals, NBC has borrowed a total of \$618,673,210 from the RIIB and received \$11,396,592 in principal forgiveness related to those loans.²

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 may be eligible for principal forgiveness.³ However, during the hearing, Ms. Giebink indicated that the NBC has learned from the RIIB that an even higher subsidy may be available on a portion (\$10 million) of the \$45 million loan. She related that NBC is still waiting for confirmation and details on this additional savings.⁴

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

² *Id.*, p. 2.

³ *Id.*

⁴ See Transcript.

Ms. Giebink next testified that the loan proceeds will be used for capital projects, including: \$37.8 million (84%) on the design and construction of the CSO Phase III A and Phase III B Facilities; and approximately \$5.3 million (12%) on improvements to the Field's Point Wastewater Treatment Facility UV Disinfection, Providence River Siphon, Moshassuck Valley Interceptor, and Louisquisset Pike Interceptor Improvements. Ms. Giebink testified that the remaining \$1.95 million (2%), is allocated to smaller miscellaneous projects. 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.⁵

In her pre-filed direct testimony, Ms. Giebink stated that NBC's existing rates do generate sufficient revenues to meet the debt service and debt service coverage requirements associated with the proposed borrowing. She indicated that NBC had requested a rate increase to cover this debt service and debt service coverage before the Rhode Island Public Utilities Commission ("Commission"), in Docket No. 4885. She testified that the filing was approved by the Commission on December 4, 2018 and became effective on January 1, 2019.⁶

Ms. Giebink next testified that other than the instant petition for approval from the Division, the NBC has met all but one of the other requirements needed to complete the proposed transaction. She related that

⁵ NBC Exhibit 1, Giebink Testimony, p. 2.

⁶ Id., p. 2 and Giebink Exhibit KG-1 and hearing transcript.

the NBC submitted its loan application with the RIIB on April 2, 2018 and that the RIIB approved the loan application on November 30, 2018. 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 \$45,000,000 on May 9, 2018. Lastly, Ms. Giebink related that one outstanding requirement, the S&P Global Ratings credit review, which was completed on January 18, 2019, is scheduled to issue its final report on February 1, 2019.⁷

In her final remarks, Ms. Giebink noted that the instant application includes a draft loan agreement, which she explained is representative of the loan agreement that will be executed as part of this transaction; she noted however, that a final review will be conducted prior to the closing of the loan. Ms. Giebink also noted that the proposed transaction does not contain any "unusual features which may have [a] significant impact on the Division's ability to regulate the utility." Finally, Ms. Giebink testified that NBC does plan to seek an additional debt issuance (and approval from the Division) in early 2019, through a Water Infrastructure Finance and Innovation Act (WIFIA) loan from the EPA. She expects the loan amount to be \$251 million and be used for funding related to NBC's CSO Phase III Facilities.⁸

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 600

⁷ Id., p. 3 and Giebink Exhibit KG-2.

⁸ Id., p. 3.

employees in 38 offices across the United States. He testified that for the “19th consecutive year, PFM has maintained its position as the number one financial advisor in the industry, providing financial advisory services in more than 996 transactions for a total par amount in excess of \$63.5 billion in 2018.” 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.”⁹ 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 since 2012 he has gained much experience working with the NBC and is familiar with NBC’s borrowing history and credit needs.¹⁰

With respect to the instant matter, Mr. Fazioli indicated that he has been asked to provide testimony in support of NBC’s planned \$45,000,000 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 2039 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 4.00%, which would result in a projected effective subsidized yield of approximately 3.18%.”¹¹

⁹ NBC Exhibit 1, Fazioli Testimony, p. 1.

¹⁰ Id., p. 2.

¹¹ Id., p. 2 and Fazioli Exhibit WJF-1.

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 are still relatively low 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 1 to 20 basis points higher than a "AAA" credit rating as of December 6, 2018. 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 extremely flat in the long term with the spread between 10 and 20 year interest rates at about 4 basis points for a "AA" credit.¹² Mr. Fazioli offered a graphic to demonstrate these variations in the yield curve.¹³

In his concluding comments, Mr. Fazioli opined that NBC plans to price its bonds in February 2019. He related that to facilitate this timing, Division approval is needed by January 28, 2019 so that the Preliminary Official Statement can be mailed to investors approximately one week prior to pricing.¹⁴

After a brief cross-examination of the NBC's witnesses, and in view of the Commission's recent decision in Docket No. 4885, the Advocacy Section stated for the record that it was satisfied from the evidence presented, that NBC had

¹² *Id.*, p. 3.

¹³ *Id.*

¹⁴ *Id.*

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 \$45,000,000, is reasonable and in the best interest of ratepayers.

Now, therefore, it is

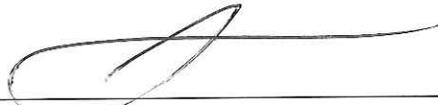
(23399) ORDERED:

1. That the Narragansett Bay Commission's December 12, 2018 application seeking approval to issue long-term debt through a RIIB borrowing, not to exceed \$45,000,000, 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 JANUARY 24, 2019.



John Spirito, Jr., Esq.
Hearing Officer

APPROVED: 

Macky McCleary
Administrator