



**NARRAGANSETT BAY COMMISSION**

ONE SERVICE ROAD, PROVIDENCE, RI 02905

**Application For Borrowing Authority to refund the NBC's 2013 Series A  
and 2013 Series C Bonds and specific maturities of its 2014 Series B and  
2015 Series A Bonds**

**November 21, 2019**

Vincent J. Mesoella  
Chairman

Laurie Horridge  
Executive Director

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November 21, 2019

Ms. Luly Massaro, Clerk  
Rhode Island Division of  
Public Utilities and Carriers  
89 Jefferson Boulevard  
Warwick, RI 02888

***RE: Narragansett Bay Commission Application For Borrowing Authority***

Dear Ms. Massaro:

On behalf of the Narragansett Bay Commission ("NBC"), enclosed you will find an original and four copies of an Application for Borrowing Authority. In its application, NBC seeks authority to obtain financing, payable more than twelve (12) months from the date of issue, to refund the NBC's 2013 Series A and 2013 Series C Bonds and specific maturities of its 2014 Series B and 2015 Series A Bonds to take advantage of currently prevailing lower interest rates, which will result in a financial benefit to the NBC and its ratepayers. Included in the application package is a copy of the proposed notice to be published in the Providence Journal. Please let me know if the proposed notice is acceptable and please contact me with a hearing date so it can be published.

Thank you for your attention to these matters.

Sincerely,



Joseph A. Keough, Jr.

Enclosures

cc: RI Attorney General's Office (Attn. Christy Hetherington, Esq.)

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

**IN RE: THE NARRAGANSETT BAY COMMISSION:**

**Docket No. D-19-**

**APPLICATION FOR BORROWING AUTHORITY  
NOTICE OF FILING AND PUBLIC HEARING**

Notice is hereby given that on November 21, 2019, pursuant to the Rhode Island General Law §39-3-15, §39-3-17, §39-3-18 and Section 1.14 of the Rhode Island Division of Public Utilities and Carriers' Rules of Practice and Procedure, the Narragansett Bay Commission ("NBC") filed with the Division of Public Utilities and Carriers ("Division") an Application For Borrowing Authority to obtain financing, payable more than twelve (12) months from the date of issue to refund the NBC's 2013 Series A and 2013 Series C Bonds and specific maturities of its 2014 Series B and 2015 Series A Bonds to take advantage of currently prevailing lower interest rates, which will result in a financial benefit to the NBC and its ratepayers. The Application seeks authority to issue refunding bonds in an amount sufficient to pay the principal of, interest on, and redemption price of, the all or a portion of NBC's 2013 Series A and 2013 Series C Bonds and specific maturities of the NBC's 2014 Series B and 2015 Series A Bonds, provided, however, that refunding bonds shall be issued only if the NBC is able to achieve a present value savings in an amount of at least three percent (3%) of the principal amount of the bonds being refunded net of issuance costs.

A hearing on the proposal will be held at the Division of Public Utilities and Carriers, 89 Jefferson Boulevard, Warwick, Rhode Island on December 7, 2019 at 10 a.m. The hearing may continue thereafter from day to day and time to time as required. At this hearing, the Division will consider the propriety of NBC's Application For Borrowing Authority. Please note that the Division is accessible to the handicapped, and that individuals requesting interpreter services for the hearing impaired must contact the Clerk seventy-two hours in advance of the hearing.

A copy of the application is on file for examination at the NBC, One Service Road, Providence, Rhode Island and at the offices of the Division of Public Utilities and Carriers, 89 Jefferson Boulevard, Warwick, Rhode Island. A copy of the filing was also provided to the Rhode Island Attorney General's Department, Consumer Division.

Reference is made to Chapters 39-1, 39-3 and 42-35 of the Rhode Island General Laws; specifically Sections 39-1-7, 39-1-8, 39-1-11, 39-1-12, 39-1-16, 39-1-18, 39-1-20, 42-35-8, and 42-35-10.

**CERTIFICATE OF SERVICE**

I, Karen L. Giebink, hereby certify that I have, this 21<sup>st</sup> day of November, 2019 caused a copy of the within application filed under Section 39-3-15 for the Narragansett Bay Commission to be served on all parties designed on the official service list in this proceeding.



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Karen L. Giebink  
Chief Financial Officer

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**NARRAGANSETT BAY COMMISSION**

**PRE-FILED DIRECT TESTIMONY**  
**OF KAREN L. GIEBINK**

**Q. Please state your name and address.**

A. Karen L. Giebink. My business address is the Narragansett Bay Commission, One Service Road, Providence, Rhode Island 02905.

**Q. For whom are you employed and what is your position?**

A. I am employed by the Narragansett Bay Commission (NBC) as its Chief Financial Officer.

**Q. For how long have you been so employed?**

A. I have been employed as NBC's Chief Financial Officer since July 2018. Prior to that date, I served as NBC's Director of Administration and Finance beginning in April 1997. I began my employment with the NBC in 1989 and have held the positions of Policy Associate and Senior Environmental Planner. The three years prior to my employment with the NBC I worked as an analyst for the City of San Diego Water Utilities Department.

**Q. Have you previously testified before the Division of Public Utilities and Carriers (Division)?**

A. Yes. I provided testimony in previous NBC requests for approval to enter into long-term debt. I have also provided testimony in dockets 1968, 2216, 3651, 3797, 3905, 4305, 4652, 4364, 4478, 4885 and 4890 before the Rhode Island Public Utilities Commission (PUC).

**Q. What is the purpose of your testimony?**

A. To provide information regarding NBC's application for Division approval to enter long-term debt and issue revenue bonds to effectuate the refunding of the NBC's 2013 Series A and 2013 Series C Bonds and specific maturities of the 2014 Series B and 2015 Series A Bonds.

**Q. Has the Division previously approved similar applications from the NBC?**

A. Yes. The Division has approved previous requests from the NBC that effectuated the refunding of the 2005 Series A Bonds and the 2007 Series A Bonds. Those refundings generated significant savings to NBC and its ratepayers.

1 **Q. Can you briefly describe how a bond refunding works, and why NBC needs Division approval to**  
2 **issue long-term debt?**

3 A. Yes, NBC wishes to “refinance” the 2013 Series A and 2013 Series C Bonds and specific maturities  
4 of the 2014 Series B and 2015 Series A Bonds with the issuance of new bonds that will generate  
5 savings due to lower interest rates achievable under current market conditions. This is the same  
6 concept as refinancing a mortgage whereby one repayment obligation is replaced with another,  
7 lower cost, repayment obligation. It should be noted that the final maturity date of the proposed  
8 refunding bonds will not extend beyond the final maturity dates of the original debt issues.

9  
10 **Q. Can you briefly describe the proposed bond refunding?**

11 A. Yes. Outstanding bonds that are refunded more than 90 days prior to their “call” date are  
12 considered to be “advance refundings”. The bonds that NBC is considering refunding are tax-  
13 exempt issues. In the past, the advance refunding of existing tax-exempt bonds has been  
14 accomplished through the issuance of new tax-exempt bonds, but this option was eliminated by  
15 the Tax Cuts and Jobs Act of 2017. As a result, opportunities for issuers to achieve savings through  
16 tax-exempt advance refundings were curtailed. However, the current long-term interest rate  
17 environment is such that an advance refunding of all or certain maturities of NBC’s outstanding  
18 debt with **taxable** bonds can be achieved and the resulting savings are in the best interest of NBC  
19 and its ratepayers.

20  
21 **Q. What are the projected savings from the refundings?**

22 A. A preliminary analysis prepared by NBC’s municipal advisor estimates that advance refunding  
23 of these bonds, based on current market conditions, would result in a Net Present Value (NPV)  
24 savings of approximately \$9.3 million or 6.2% of refunding par. This is in excess of the 3.0%  
25 NPV savings that is the industry guideline for executing an advance refunding transaction.

26  
27 **Q. Why is NBC interested in these refundings now?**

28 A. It is unclear how long interest rates will remain at these near historic low levels. In addition,  
29 it is uncertain as to whether the use of tax-exempt debt will again be allowed for advance  
30 refundings. Therefore, it is beneficial to take this opportunity to lock in these debt service  
31 savings now.

32

1 **Q. Can you explain the steps NBC needs to take to accomplish the refunding?**

2 A. NBC will issue refunding bonds in the current market and proceeds of the new bonds will be used  
3 to purchase State and Local Government Securities or "SLGS" or other securities which will be  
4 held in an escrow account. All debt service payments on the refunded bonds due prior to the call  
5 date will be paid from the escrow account. Please see the testimony of Stephen Maceroni for  
6 more information on the escrowed funds.

7

8 **Q. Has NBC's Board of Commissioners (Board) authorized the refunding of the Bonds as proposed**  
9 **in this application with the Division?**

10 A. Yes, the Board passed Resolution 2019:27 authorizing the refunding of all or a portion of the  
11 outstanding Narragansett Bay Commission Wastewater System Revenue Bonds, 2013 Series A,  
12 2013 Series C, 2014 Series B and 2015 Series A at their September 24, 2019 meeting (see Exhibit  
13 KG-1).

14

15 **Q. What other items are outstanding to complete this transaction?**

16 A. The current schedule includes a credit review by S&P Global the week of December 16, 2019. The  
17 schedule anticipates the receipt of the rating sometime the week of January 13, 2020, with the  
18 issuance of the Preliminary Official Statement (POS) shortly thereafter. Division approval is  
19 needed prior to the mailing of the POS and 30 days prior to the bond pricing scheduled for January  
20 22, 2020. The bond closing is scheduled for February 13, 2020.

21

22 **Q. Are there any factors that could delay this closing date?**

23 A. The main factors, other than typical minor scheduling delays, would be changes in interest rates  
24 and market conditions between now and the pricing date. If those factors changed such that NBC  
25 could not achieve a present value savings of at least three percent (3%) of the principal amount  
26 of the bonds being refunded net of issuance costs, then we would postpone the closing. However,  
27 NBC needs approval from the Division now to allow us to be able to execute the refunding as soon  
28 as rates and market conditions allow us to achieve that level of savings if the closing is postponed.

29

30 **Q. If the Division grants this approval, and the closing is postponed for more than thirty days after**  
31 **February 13, 2020, will NBC agree to keep the parties apprised of the revised borrowing**  
32 **schedule?**

33 A. Yes.

1 **Q. Does NBC have sufficient coverage to meet the debt service and debt service coverage**  
2 **requirements for the proposed refunding of the open market issues?**

3 A. Yes, the annual debt service of the refunding bonds is less than the debt service on the bonds to  
4 be refunded. Please see the coverage schedule based upon the rates approved by the Public  
5 Utilities Commission in Docket 4890 effective July 1, 2019 (see Exhibit KG-2).

6  
7 **Q. Does the proposed transaction have any unusual features which may have significant impact**  
8 **on the Division's ability to regulate the utility?**

9 A. No, it does not.

10

11 **Q. Does this conclude your pre-filed testimony?**

12 A. Yes.

The Narragansett Bay Commission  
One Service Road  
Providence, RI 02905

(401) 461-8848  
(401) 461-6540 FAX

Vincent J. Meselella  
Chairman

Laurie A. Horridge  
Executive Director



**RESOLUTION NO. 2019:27**

**NARRAGANSETT BAY COMMISSION**

**RESOLUTION OF THE NARRAGANSETT BAY COMMISSION  
AUTHORIZING THE REFUNDING OF ALL OR A PORTION OF  
THE OUTSTANDING NARRAGANSETT BAY COMMISSION  
WASTEWATER SYSTEM REVENUE BONDS, 2013 SERIES A, 2013 SERIES C, 2014  
SERIES B AND 2015 SERIES A**

WHEREAS, the Narragansett Bay Commission (the "Commission") has issued its \$71,480,000 Wastewater System Revenue Bonds, 2013 Series A (the "2013 Series A Bonds"), its \$34,970,000 Wastewater System Revenue Bonds, 2013 Series C (the "2013 Series C Bonds") its \$39,820,000 Wastewater System Revenue Refunding Bonds, 2014 Series B (the "2014 Bonds") and its \$40,085,000 Wastewater System Revenue Refunding Bonds, 2015 Series A (the "2015 Bonds" and together with the 2013 Series A Bonds, the 2013 Series C Bonds, the 2014 Bonds and the 2015 Bonds, referred to herein as the "Refunded Bonds") pursuant to a Trust Indenture dated as of April 15, 2004 (the "Trust Indenture") by and between the Commission and U.S. Bank National Association, as successor to Wells Fargo Bank, N.A., as successor to J.P. Morgan Trust Company, National Association, as trustee (the "Trustee"), as amended and supplemented by the First Supplemental Indenture dated as of April 15, 2004, the Second Supplemental Indenture dated as of December 30, 2004, the Third Supplemental Indenture dated August 4, 2005, the Fourth Supplemental Indenture dated as of December 15, 2005, the Fifth Supplemental Indenture dated as of December 1, 2006, the Sixth Supplemental Indenture dated as of February 8, 2007, the Seventh Supplemental Indenture dated as of October 15, 2007, the Eighth Supplemental Indenture dated as of December 12, 2007, the Ninth Supplemental Indenture dated as of July 1, 2008, the Tenth

Supplemental Indenture dated as of November 1, 2008, the Eleventh Supplemental Indenture dated as of October 6, 2009, the Twelfth Supplemental Indenture dated as of February 12, 2010, the Thirteenth Supplemental Indenture dated as of June 24, 2010, the Fourteenth Supplemental Indenture dated as of March 29, 2011, the Fifteenth Supplemental Indenture dated as of June 28, 2012, the Sixteenth Supplemental Indenture dated November 28, 2012, the Seventeenth Supplemental Indenture dated March 21, 2013, the Eighteenth Supplemental Indenture dated as of June 6, 2013, the Nineteenth Supplemental Indenture dated December 12, 2013, the Twentieth Supplemental Indenture dated March 6, 2014, the Twenty-First Supplemental Indenture dated October 28, 2014, the Twenty-Second Supplemental Indenture dated May 5, 2015, the Twenty-Third Supplemental Indenture dated July 30, 2015, the Twenty-Fourth Supplemental Indenture dated June 2, 2016, the Twenty-Fifth Supplemental Indenture dated April 4, 2019 and the Twenty-Sixth Supplemental Indenture dated August 27, 2019 (the Trust Indenture, as amended and supplemented including by the Twenty-Sixth Supplemental Indenture is referred to herein as the "Indenture"), each by and between the Commission and the Trustee. The Trust Indenture, as amended and supplemented, is referred to herein as the "Indenture;"

WHEREAS, in order to take advantage of lower interest rates currently prevailing, the Commission desires the ability to issue revenue obligations ("Refunding Obligations") pursuant to Title 46-25-58 of the Rhode Island General Laws for the purpose of refunding all or a portion of the Refunded Bonds (the "Refunding"), so long as it is determined by an Authorized Officer (as defined below) in consultation with PFM Financial Advisors, LLC, the municipal advisor to the Commission (the "Municipal Advisor"), that such Refunding is expected to result in a financial benefit to the Commission;

WHEREAS, in order to facilitate the Refunding, the Commission desires to: (i) enter into one or more Supplemental Indentures, dated as of a date to be determined, by and between the Commission and the trustee providing for the issuance of the Refunding Obligations; (ii) distribute one or more official statements or other disclosure documents to be issued in connection with the Refunding Obligations, describing the Commission and its activities, and setting forth statistical, financial and other information about the Commission and which will also include the audited financial statements of the Commission; (iii) enter into one or more bond purchase agreements dated as of a date to be determined, between the Commission and a purchaser to be named therein (the

"Purchaser") and providing for the purchase of the Refunding Obligations by the Purchaser and containing or requiring provisions, inter alia for indemnification of the Commission and the Purchaser (one or more), either in such bond purchase agreements or pursuant to a separate document or instrument; (iv) enter into such documents as may be necessary or convenient in connection with obtaining credit enhancement for the Refunding Obligations; (v) enter into agreements amending any documents executed in connection with the Refunding Obligations; (vi) enter into agreements, documents and/or other instruments by and among the Commission and one or more financial institutions in connection with the investment of the proceeds of the Refunding Obligations; (vii) enter into one or more escrow agreements or refunding trust agreements with respect to the Refunding; and (viii) enter into such other documents, certificates, instruments and agreements, including without limitation, a continuing disclosure agreement (the documents, certificates, instruments and agreements described in subsections (i) through (viii) herein are collectively referred to as the "Refunding Documents") and perform such other actions as the officer or officers executing or delivering the same determine to be necessary or appropriate in order to carry out any Refunding. Capitalized terms not otherwise defined herein shall be as defined in the Indenture.

NOW, THEREFORE, THE COMMISSION RESOLVES AS FOLLOWS:

1. Determination of Course of Action. The Chairman and the Executive Director of the Commission (each, an "Authorized Officer" and together, the "Authorized Officers") shall be and hereby are authorized, empowered and directed, for and in the name of and on behalf of the Commission, to determine, in consultation with the Commission's Municipal Advisor, the advisability of any Refunding.

2. Approval of Refunding. The Board hereby approves the Refunding, provided that the Authorized Officers, in consultation with the Commission's Municipal Advisor, have determined that such Refunding is expected to result in a financial benefit to the Commission. The Authorized Officers effectuating the Refunding shall present a report regarding such Refunding and the financial benefit resulting therefrom to the Board of the Commission at its next regular meeting.

3. Agreements. In connection with the Refunding, the Authorized Officers, or in the event of their absence, illness or other inability to act, any member of the Commission whom the Authorized Officers may designate, are hereby authorized, empowered and directed, for and in the

name of and on behalf of the Commission, to do any and all things, and to make, execute, deliver, file and record any and all agreements, instruments, papers, certificates and documents which shall be or become necessary, proper or convenient to carry out such Refunding including, without limitation, the Refunding Documents, each to contain such provisions and to be in such form as the Authorized Officers shall determine to be necessary or appropriate, and the execution, acknowledgement and delivery of each such agreement or document by such Authorized Officers shall be conclusive evidence as to authorization by this vote.

4. Preliminary and/or Final Official Statement. The Authorized Officers are hereby authorized, empowered and directed, for and in the name of and on behalf of the Commission to approve a preliminary official statement and/or final official statement, including an informational statement regarding the Commission, to be prepared in connection with any Refunding and to execute, acknowledge, deliver and approve said preliminary and/or final official statement. The Commission hereby authorizes the Authorized Officers to deem the preliminary official statement, if any, "final as of its date" pursuant to Rule 15c2-12 of the Securities and Exchange Commission.

5. Sale of the Refunding Obligations. The Chairman and the Executive Director, on behalf of the Commission, are authorized to issue the Refunding Obligations in the amount necessary to refund all or a portion of the Refunded Bonds, including financing costs and the funding of a debt service reserve. The Refunding Obligations, if any, shall be sold pursuant to the terms of a bond purchase agreement or agreements and shall bear fixed rates, as determined by the Authorized Officers executing the bond purchase agreement or agreements, in consultation with the Commission's Municipal Advisor. The rates of interest per annum to be borne shall be determined pursuant to a certificate to be delivered by the Chairman or the Executive Director of the Commission, or in the event of their absence, illness or other inability to act, any member of the Commission who the Chairman or Executive Director may designate, which rates shall not exceed 8% per annum. All acts of the Authorized Officers and all other officers of the Commission which are in conformity with the purposes and intents of this Resolution and furtherance of the issuance of the Refunding Obligations and the execution, delivery and approval and performance of the Refunding Documents, any supplemental or amendatory documents with respect to existing documents, and all other documents, certificates and instruments as may be necessary or advisable in connection therewith, and the same hereby are, in all respects ratified, approved and confirmed.

6. Details of the Refunding Obligations. The Chairman or the Executive Director of the Commission, or in the event of their absence, illness or other inability to act, any member of the Commission whom the Chairman or the Executive Director may designate, are hereby authorized to reduce the total principal amount of the Refunding Obligations to be sold, to sell the Refunding Obligations, to select the dated date or dates of the Refunding Obligations, the maturity, redemption and other terms of the Refunding Obligations as set forth in the Trust Indenture. The Chairman and Executive Director are hereby authorized to execute and deliver such other documents and take such other actions, as may be necessary, desirable or advisable to effectuate the issuance of the Refunding Obligations. The Refunding Obligations shall not be deemed to constitute a debt or pledge of the faith and credit of the State or any municipality. Neither the State nor any municipality shall be obligated to pay the Refunding Obligations or the interest thereon, and neither the faith and credit nor the taxing power of the State or any municipality is pledged to such payment. The Commission may issue additional revenue obligations on a parity with these Refunding Obligations.

7. Compliance with Code – Refunding. The Refunding Obligations may be issued on a tax-exempt or taxable basis. In connection with any Refunding on a tax-exempt basis, each Authorized Officer is hereby authorized to take all lawful action necessary under the Code, to insure that the interest on the Refunding Obligations is exempt from federal taxation to the extent provided in Section 103 of the Code and to refrain from taking any action which would cause interest on the Refunding Obligations to lose the benefit of exclusion of gross income provided by Section 103(a) of the Code. The Authorized Officers, acting singly, are authorized to execute and deliver a Tax Certificate in connection with the issuance of the Refunding Obligations in order to effectuate the foregoing.

8. Additional Documents. From and after the execution and delivery of documents hereinabove authorized, the proper officers, Board members and agents and employees of the Board are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of said documents as executed and are further authorized to take any and all actions and to execute and deliver any and all documents as may be necessary or advisable in connection with the Refunding and in the execution, delivery, approval and performance of the Refunding Documents, any supplemental or amendatory

documents with respect to existing documents, and all other documents, certificates and instruments as may be necessary or advisable in connection therewith.

9. Ratification and Approval. All acts of the Authorized Officers and all other officers of the Board which are in conformity with the purposes and intents of this Resolution and furtherance of the Refunding and the execution, delivery and approval and performance of the Refunding Documents, any supplemental or amendatory documents with respect to existing documents, and all other documents, certificates and instruments as may be necessary or advisable in connection therewith, shall be, and the same hereby are, in all respects ratified, approved and confirmed.

10. Effectiveness. This Resolution shall take effect upon passage.

ADOPTED ON: 9/24/19

SIGNED:   
Laurie A. Horridge  
Executive Director & Secretary

**Narragansett Bay Commission  
Debt Service Coverage**

Exhibit KG-2

Fiscal Year	Available for Debt Service	Current Debt Service	Debt Service Coverage	Impact of Bond Refunding			
				Less Refunded Bonds Debt Service	Plus Refunding Bonds Debt Service	Total Debt Service After Refunding	Debt Service Coverage
2020	\$ 62,642,390	\$ 47,338,378	1.32	\$ -	\$ -	\$ 47,338,378	1.32
2021	62,642,390	49,736,391	1.26	(7,010,700)	6,272,654	48,998,345	1.28
2022	62,642,390	49,691,833	1.26	(7,010,700)	6,271,699	48,952,832	1.28
2023	62,642,390	46,530,624	1.35	(7,010,700)	6,269,439	45,789,363	1.37
2024	62,642,390	45,052,739	1.39	(7,010,700)	6,270,176	44,312,215	1.41
2025	62,642,390	44,065,976	1.42	(9,121,575)	8,379,584	43,323,985	1.45
2026	62,642,390	44,062,329	1.42	(11,782,325)	11,043,738	43,323,742	1.45
2027	62,642,390	43,409,546	1.44	(10,474,200)	9,734,241	42,669,587	1.47
2028	62,642,390	43,129,092	1.45	(8,893,700)	8,152,722	42,388,114	1.48
2029	62,642,390	42,858,459	1.46	(8,893,900)	8,154,784	42,119,343	1.49
2030	62,642,390	41,930,747	1.49	(12,493,756)	11,751,757	41,188,747	1.52
2031	62,642,390	41,614,058	1.51	(12,472,913)	11,735,302	40,876,448	1.53
2032	62,642,390	45,560,774	1.37	(16,339,931)	15,597,987	44,818,829	1.40
2033	62,642,390	43,225,975	1.45	(15,283,575)	14,546,102	42,488,502	1.47
2034	62,642,390	44,730,092	1.40	(18,630,050)	17,888,828	43,988,870	1.42
2035	62,642,390	37,271,312	1.68	(8,334,150)	7,593,405	36,530,567	1.71
2036	62,642,390	29,576,491	2.12	(14,141,275)	13,403,822	28,839,038	2.17
2037	62,642,390	30,267,740	2.07	(14,837,775)	14,098,363	29,528,328	2.12
2038	62,642,390	25,074,574	2.50	(9,648,150)	8,909,469	24,335,892	2.57
2039	62,642,390	24,822,566	2.52	(9,652,150)	8,911,091	24,081,507	2.60
2040	62,642,390	62,851,471	1.00	(9,648,200)	8,910,929	62,114,200	1.01
2041	62,642,390	63,699,010	0.98	(9,649,200)	8,909,586	62,959,396	0.99
2042	62,642,390	63,699,010	0.98	(9,651,700)	8,912,647	62,959,957	0.99
2043	62,642,390	63,699,010	0.98	(9,650,200)	8,909,666	62,958,477	0.99
2044	62,642,390	63,699,010	0.98	(9,649,200)	8,910,190	62,960,000	0.99
2045	62,642,390	64,076,275	0.98			64,076,275	0.98
2046	62,642,390	46,022,594	1.36			46,022,594	1.36
2047	62,642,390	10,239,277	6.12			10,239,277	6.12
		<u>\$ 1,257,935,353</u>		<u>\$ (257,290,725)</u>	<u>\$ 239,538,180</u>	<u>\$ 1,240,182,808</u>	

1 **NARRAGANSETT BAY COMMISSION**

2  
3 **PRE-FILED DIRECT TESTIMONY**  
4 **OF STEPHEN MACERONI**  
5

6 **Q. Please state your name and title.**

7 A. My name is Stephen Maceroni, Director with PFM Financial Advisors LLC (PFM).  
8

9 **Q. Could you please describe your educational and employment background?**

10 A. I hold a Master of Business Administration degree from the University of Rhode Island and a  
11 Bachelor of Science in Management degree from Rhode Island College. With over 23 years of  
12 public finance experience, I have served as financial advisor to governmental issuers in Rhode  
13 Island and throughout New England. Issuers that I have served during my career as a financial  
14 advisor include over 20 cities and towns in Rhode Island as well as the Rhode Island Health and  
15 Educational Building Corporation, the Rhode Island Commerce Corporation and the Rhode Island  
16 Convention Center Authority. In addition, I have extensive experience assisting borrowers through  
17 the Rhode Island Infrastructure Bank State Revolving Fund Loan Program.  
18

19 **Q. Can you describe the organization of PFM Financial Advisors LLC (PFM) and the types of  
20 services that it provides?**

21 A. Over the past 44 years, PFM has provided independent financial advisory services to public  
22 entities. PFM has grown into a national firm with over 600 employees in 38 offices across the  
23 United States. For the 21<sup>st</sup> consecutive year, PFM has maintained its position as the number one  
24 financial advisor in the industry, providing financial advisory services on more than 809  
25 transactions for a total par amount in excess of \$47.4 billion in 2018. In terms of wastewater  
26 issuers, PFM has been the top ranked financial advisor in this sector for several years as well while  
27 representing other large wastewater operators including the Massachusetts Water Resources  
28 Authority and the DC Water and Sewer District.  
29  
30

1 **Q. What is your relationship with the Narragansett Bay Commission (NBC)?**

2 A. PFM was appointed in 2012 to serve as Financial Advisor to the NBC by its Board of  
3 Commissioners. I have experience working with the NBC and am familiar with NBC's borrowing  
4 history and capital needs. I also worked closely with NBC on the recent \$268.7 million loan  
5 through the Water Infrastructure Finance and Innovation Act (WIFIA) program administered by  
6 the United States Environmental Protection Agency (USEPA) for the CSO Phase IIIA Project.

7  
8 **Q. Have you testified previously before the Rhode Island Division of Public Utilities and Carriers  
9 (Division)?**

10 A. No. During the past seven years my former colleague Bill Fazioli testified on behalf of the NBC. I  
11 worked closely with Mr. Fazioli and attended most the Division hearings during this time to  
12 provide technical assistance and support as needed.

13  
14 **Q. What is the purpose of your testimony?**

15 A. I was asked to provide testimony in support of NBC's application for Division approval to issue  
16 long-term debt as part of the proposed refunding of NBC's 2013 Series A and 2013 Series C Bonds  
17 and specific maturities of the NBC's 2014 Series B and 2015 Series A bonds.

18  
19 **Q. Can you provide some background regarding this application?**

20 A. Yes. NBC may be able to achieve considerable savings through the refunding of several series of  
21 bonds. The bond issues and first optional redemption dates are highlighted in the table below:

22

Bond Issue	First Optional Redemption
2013 Series A	September 1, 2022
2013 Series C	September 1, 2023
2014 Series B	September 1, 2024
2015 Series A	February 1, 2025

23  
24  
25 As the call dates have approached, long-term interest rates in the municipal bond market have  
26 also moved lower, making it economically advantageous for NBC to refinance the callable portion  
27 of the 2013 Series A and 2013 Series C Bonds and certain maturities of the 2014 Series B and 2015  
28 Series A Bonds. A recent analysis indicates, that based on current market rates, NBC could achieve

1 net present value savings of approximately \$9.3 million or 6.2% of refunded bond principal over  
2 the remaining life of the refunded bonds.

3  
4  
5 **Q. Why is it advantageous to refund at this time?**

6 A. Although interest rates continue to fluctuate they remain near historic lows. It is recommended  
7 that NBC enter the market now so it can lock-in these savings.

8  
9 **Q. Can you provide more background information regarding the proposed refundings?**

10 A. Yes. Outstanding bonds that are refunded more than 90 days prior to their “call” date are  
11 considered to be “advance refundings”. Tax-exempt bond issuers traditionally used tax-exempt  
12 bonds for advance refundings but this option was eliminated by the Tax Cuts and Jobs Act of 2017.  
13 Due to the unique current long-term interest rate environment, however, it has become possible  
14 to achieve significant savings through the advance refunding of all or certain maturities of NBC’s  
15 outstanding debt with *taxable* bonds.

16  
17 **Q. How do you determine when a bond should be refunded?**

18 A. The industry standard and Government Finance Officers Association guideline for executing an  
19 advance refunding transaction is the ability to achieve a 3.0% net present value savings measured  
20 in relation to the principal amount of the bonds being refunded. Given the current interest rate  
21 environment, PFM has been monitoring refunding opportunities that would meet or approach  
22 this criteria. As a result of this active monitoring, PFM has identified several series that meet this  
23 criteria.

24  
25 **Q. Why should NBC refund these borrowings now?**

26 A. Long-term interest rates remain at historic lows and it is not likely that NBC will be able to achieve  
27 savings from advance refunding with taxable debt in the future. It is also possible that the ability  
28 to execute tax-exempt refundings may never be restored by Congress. The biggest risk associated  
29 with deferring this refunding is that interest rates will rise in the interim, and NBC will miss this  
30 window of opportunity. Historically, interest rates for tax-exempt debt are lower than those for  
31 taxable debt. Currently, however, there is a narrow spread between taxable and tax-exempt rates,  
32 which provides a unique opportunity for NBC to accomplish the advance refunding.

1 **Q. Can you explain how NBC will redeem each of the borrowings?**

2 A. Yes. Given that this is an advance refunding, the refunding bond proceeds will be held in an escrow  
3 account with NBC’s trustee and the debt service payments on the refunded debt will be paid from  
4 these funds up until their respective call dates at which time the higher interest rate refunded  
5 bonds will be redeemed and only the new refunding bonds, with lower interest rates, will be  
6 outstanding. PFM will assist NBC with the purchase of State and Local Government Securities or  
7 “SLGS” or other securities as permitted by the IRS code.

8  
9 **Q. Would you please address the structure and interest rate assumptions of the proposed  
10 refunding issue?**

11 A. PFM prepared a preliminary analysis which contemplates the refunding of the callable 2013 Series  
12 A and 2013 Series C Bonds as well as those 2014 Series B and 2015 Series A maturities that would  
13 generate net present value savings greater than 3%. The proposed taxable refunding bonds would  
14 mature on the same dates as the original maturity dates of the refunded bonds. Based on recent  
15 rates, which are subject to change, the par (principal) amount of the refunding bonds is \$164.6  
16 million and the par amount of the refunded bonds is \$150.8 million. The average coupon (interest  
17 rate) of the refunded bonds is 4.55% and the average coupon of the refunding bonds is 3.16%.  
18 The preliminary coupon structure would result in an all-in True Interest Cost (TIC) of 3.205% for  
19 the refunding bonds.

20  
21 **Q. Can you provide an update on current market rates, the yield curve, NBC’s credit rating and how  
22 these factors create this opportunity for NBC?**

23 A. As previously stated, municipal tax-exempt rates and taxable rates remain near historic lows. The  
24 chart on the following page includes the tax-exempt Municipal Market AAA index and 30-Treasury  
25 bond yields for the past year. The chart illustrates how the spreads between the two indices is  
26 extremely narrow, less than 30 basis points.



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NBC maintains a strong credit rating. The NBC was rated AA- by S&P Global as part of its recent \$268.7 million WIFIA loan administered by the USEPA. NBC’s WIFIA Bonds were also rated AA by Kroll Bond Rating Agency in connection with that transaction. It is anticipated that there will be significant demand among bond investors due to NBC’s strong credit rating which will enable NBC to capitalize on this refunding opportunity.

**Q. What is the expected timing of this issue?**

A. In order to take advantage of the low interest rates and overall favorable market conditions, the schedule contemplates bond pricing on January 22, 2020 as long as NBC can achieve net present value savings of at least 3% net of issuance costs on that date and a closing on February 13, 2020.

**Q. What if interest rates increase significantly between now and the time of pricing?**

A. With any refunding, we recommend the issuer be prepared to quickly enter the market. In the event interest rates increase significantly over the next several weeks, the NBC could easily postpone the sale. However, it is important that the NBC be ready to enter the market again in the event rates begin to decline and NBC is able to meet the minimum net present value threshold of three percent (3%) of the principal amount of the bonds being refunded net of issuance costs. As such, NBC seeks Division approval to issue refunding bonds in an amount sufficient to pay the principal of, interest on, and redemption price of, the all or a portion of NBC’s 2013 Series A and

1 2013 Series C Bonds and specific maturities of the NBC's 2014 Series B and 2015 Series A Bonds,  
2 provided that refunding bonds shall be issued only if the NBC is able to achieve net present value  
3 savings in an amount of at least three percent (3%) of the principal amount of the bonds being  
4 refunded net of issuance costs.

5

6 **Q. When does the NBC need Division approval?**

7 A. Division approval is needed the week of December 16, 2019. That date is prior to the projected  
8 mailing of the Preliminary Official Statement and is 30 days prior to the bond pricing scheduled  
9 for January 22, 2020. The bond closing is scheduled for February 13, 2020.

10

11 **Q. Does this conclude your pre-filed testimony?**

12 A. Yes.

**NARRAGANSETT BAY COMMISSION**  
**STATEMENT OF NET POSITION**  
**OCTOBER 31, 2019**

## ASSETS

## CURRENT ASSETS

Cash and cash equivalents	\$ 23,668,447.61
Accounts receivable sewer use (net of allowance)	14,700,365.11
Accounts receivable sewer use unbilled	4,865,438.82
Accounts receivable RIIB series 2019A (PL20)	26,690,618.34
Accounts receivable RIIB series 2019B (PL21)	1,479,717.92
Accounts receivable WIFIA	268,710,610.00
Receivables, other	69,058.02
Prepaid expense	127,475.37
Total Current Assets	<u>340,311,731.19</u>

## NON-CURRENT ASSETS

## Restricted Assets

Cash and cash equivalents, restricted for environmental enforcement fund	71,813.09
Cash and cash equivalents, restricted for debt service	8,804,190.10
Cash and cash equivalents , restricted for operating reserve for revenue stability fund	4,500,000.00
Cash and cash equivalents, restricted stabilization	4,688,124.86
Cash and cash equivalents, restricted for debt service reserve fund	3,497,000.00
Cash and cash equivalents, restricted for the acquisition and construction of capital assets	18,133,466.30
Total Restricted Assets	<u>39,694,594.35</u>

## Capital Assets

Land	2,754,407.48
Plant and equipment	103,876,917.27
Capital projects completed	787,832,093.40
Construction in progress	380,485,758.17
	<u>1,274,949,176.32</u>
Less accumulated depreciation	(243,517,424.43)
Total Net Capital Assets	<u>1,031,431,751.89</u>

## Other assets

Net pension asset - Non-Union Defined Benefit Plan	1,223,392.00
Total Non-current Assets	<u>1,072,349,738.24</u>

## TOTAL ASSETS

1,412,661,469.43

## DEFERRED OUTFLOWS OF RESOURCES

Loss on refunding of debt	1,788,829.87
Pension related outflows	5,327,271.00
OPEB related outflows	577,645.00
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>7,693,745.87</u>

**NARRAGANSETT BAY COMMISSION**  
**STATEMENT OF NET POSITION**  
**OCTOBER 31, 2019**

LIABILITIES	
CURRENT LIABILITIES	
Accounts and contracts payable	\$ 1,340,148.68
Accrued interest payable	2,993,091.57
Accrued expenses	467,996.11
Total Current Liabilities	<u>4,801,236.36</u>
NON-CURRENT LIABILITIES	
Net pension liability - ERSRI Pension Plan	18,671,241.00
Long-term net OPEB liability	4,169,461.00
Long-term other accrued expenses	3,188,428.96
Long-term loans payable, net	318,126,039.92
Long-term loan, WIFIA	268,710,610.00
Long-term debt	261,553,306.57
Total Non-current Liabilities	<u>874,419,087.45</u>
TOTAL LIABILITIES	<u>879,220,323.81</u>
DEFERRED INFLOWS OF RESOURCES	
Gain on refunding debt	152,251.58
Pension related inflows	2,838,378.00
OPEB related inflows	298,914.00
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>3,289,543.58</u>
NET POSITION	
Net Investment in capital assets	511,576,889.69
Restricted - environmental enforcement	71,813.09
Restricted - debt service reserve	3,497,000.00
Restricted - operating reserve for revenue stability	4,500,000.00
Unrestricted	18,199,645.13
TOTAL NET POSITION	<u>\$ 537,845,347.91</u>

