



**APPLICATION OF
THE PROVIDENCE WATER SUPPLY BOARD FOR
AUTHORITY TO BORROW FROM THE DRINKING WATER
STATE REVOLVING FUND IN AN AMOUNT OF
\$19,100,000**

March 2020

D-20-_____

March 13, 2020

Luly Massaro,
Clerk of the Division of Public Utilities and Carriers
89 Jefferson Boulevard
Warwick, RI 02888

The Hon. Jorge O. Elorza
Mayor

Ricky Caruolo
General Manager

RE: Application of Providence Water for Authority to Borrow up to
\$19,100,000 from the RIIB Docket No. D-20-_____

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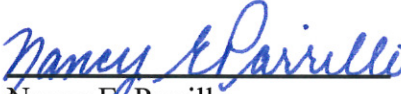
William E. O'Gara, Esq.
Legal Advisor

Dear Ms. Massaro:

Enclosed for filing are an original and four copies of Providence Water's request for authority to borrow \$19,100,000 from the RI Infrastructure Bank.

If you have any questions, contact me at 521-6300 ext.7238, or our Attorney Michael McElroy, Esq., at 351-4100.

Providence Water Supply Board


Nancy E. Parrillo
Senior Manager of Finance

MEMBER

Rhode Island Water Works Assn.
New England Water Works Assn.
American Water Works Assn.
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(401) 521-6300

125 Dupont Drive
Providence, RI 02907

www.provwater.com

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cc: R. Caruolo
G. Giasson
P. Pallozzi
M. Deignan-White
M. Gurchigian
K. Grande, Esq.
M. McElroy, Esq.
C. Hetherington, Esq.
File

PROVIDENCE WATER SUPPLY BOARD

Application for Authority to Borrow from the Rhode Island Infrastructure Bank in an amount
of \$19,100,000

Table of Contents

1. Application for Authority to Borrow
2. Proposed Notice of Filing and Public Hearing
3. Certificate of Service
4. Statement in Accordance with RIGL § 39-3-17
5. Pre-Filed Testimony of Nancy Parrillo
 - Exhibit I. Providence Water Board approval to request City to authorize bonds.
 - Exhibit II. Draft Ordinance to the City Council authorizing \$19,100,000 of borrowing.
 - Exhibit III. Present and Proforma capital structure.
 - Exhibit IV. Comparison of Interest rates
 - Exhibit V. RI Infrastructure Bank Commitment letter.
 - Exhibit VI. RI Dept. of Health Certificate of Approval.
- Attestation Under Rule 1.14
6. Pre-Filed Testimony of Gregg Giasson
7. Pre-Filed Testimony of Maureen Gurghigian
8. Appendix
 - A. Providence Water Supply Board Resolution Authorizing the Reimbursement of Expenditures and Issuance of Debt for Water Main Project.
 - B. Audited Financial Statements FYE 6/30/2019.

STATE OF RHODE ISLAND
DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN RE: PROVIDENCE WATER SUPPLY BOARD

DOCKET NO. D-20-__

R.I.G.L. § 39-3-15
APPLICATION OF THE PROVIDENCE WATER SUPPLY BOARD
FOR AUTHORITY TO BORROW \$19.1 MILLION FROM
THE RHODE ISLAND CLEAN WATER FINANCE AGENCY


In the above-entitled cause, the Providence Water Supply Board represents that:

1. The Providence Water Supply Board was created in 1940 by Chapter 832 of the Public Laws of the State of Rhode Island.
2. Providence Water seeks to borrow from the Drinking Water State Revolving Fund \$19,100,000.00 primarily for the rehabilitation of water mains and appurtenances at an interest rate not to exceed 3.0%.
3. The borrowing will be provided by the RI Infrastructure Bank, pursuant to a resolution of the Providence Water Supply Board dated January 15, 2020.
4. The loan will be secured by the Providence Water Enterprise Fund Revenues under the Providence Water Supply Board Bond Indenture
5. The borrowing may reimburse Providence Water for project costs incurred from inception of the project until the actual funding date.
6. In accordance with Section 1.14 of the Rules of Practice and Procedure of the Division of Public Utilities and Carriers, written testimony and supporting exhibits are attached hereto, including the written testimony of Gregg Giasson P.E, Nancy Parrillo, and Maureen Gurghigian of Hilltop Securities.
7. In accordance with Section 1.14 of the Rules of Practice and Procedure of the Division of Public Utilities and Carriers, a copy of this application has been filed with the Attorney General.

WHEREFORE, the Providence Water Supply Board respectfully requests that the Division of Public Utilities and Carriers authorize and consent to the borrowing from the Rhode Island Infrastructure Bank in an amount not to exceed \$19,100,000.00.

PROVIDENCE WATER SUPPLY BOARD

BY:


Ricky Caruolo
GENERAL MANAGER

STATE OF RHODE ISLAND
COUNTY OF PROVIDENCE

Subscribed and sworn before me this 11 day of March 2020



Notary Public 

#757383

My Commission Expires: 12/11/22

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

IN RE: PROVIDENCE WATER SUPPLY BOARD : Docket No. D-20-_____
APPLICATION FOR BORROWING AUTHORITY

NOTICE OF FILING AND PUBLIC HEARING

Pursuant to the provisions of the R.I.G.L. §39-3-15 and §39-3-17, the Division of Public Utilities and Carriers (the “Division”) will conduct a public hearing on _____ at _____ in a hearing room of the Division of Public Utilities and Carriers, located at 89 Jefferson Boulevard, Warwick, Rhode Island. 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 an application filed by the Providence Water Supply Board seeking consent and approval to obtain financing in the amount of \$19,100,000 million through revenue bonds to be sold by RI Infrastructure Bank for the Rhode Island Safe Drinking Water State Revolving Fund. The proceeds from the sale of the bonds will be used to clean, line, and/or replace water mains located throughout the Providence Water distribution system.

The application is on file and may be examined at the office of the Division and at the office of the Providence Water Supply Board, 125 Dupont Drive, Providence, Rhode Island.

Reference is also 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, 39-3-15, 39-3-17, 42-35-8, and 42-35-10. The Division of Public Utilities and Carriers is accessible to the handicapped. Individuals requesting interpreter services for the hearing impaired must notify the Clerk’s office at 780-2107 seventy-two hours in advance of hearing date.

Linda George, Interim Administrator

_____, 2020

Certificate of Service

I hereby certify that a true copy of the Application of the Providence Water Supply Board for Authority to borrow from the RI Infrastructure Bank in an amount of \$19,100,000.00, with all supporting documentation, was mailed by first class mail, postage prepaid, to the Attorney General, State of Rhode Island, 150 South Main Street, Providence, RI 02903, Attention: Christy Hetherington, Esq., Chief of the Regulatory Unit, on March 13, 2020.

A handwritten signature in black ink, appearing to read "Mary L. Deignan-White", with a long horizontal flourish extending to the right.

Mary L. Deignan-White
Division Manager - Regulatory
125 Dupont Drive
Providence, RI 02907
401-521-6300 Ext.7217
MaryDW@Provwater.com

STATE OF RHODE ISLAND
DIVISION OF PUBLIC UTILITIES AND
CARRIERS

IN RE: PROVIDENCE WATER SUPPLY BOARD DOCKET NO. D-20-_____

STATEMENT IN ACCORDANCE WITH R.I.G.L. § 39-3-17

Xaykham Khamsyvoravong, Chairman, and Carissa R. Richard, Secretary,
Providence Water Supply Board, after being duly sworn, hereby make the following
statement in accordance with R.I.G.L. § 39-3-17:

1. Providence Water Supply Board has filed with the Rhode Island Division of Public Utilities and Carriers an Application to Borrow from the Rhode Island Infrastructure Bank in the amount of Nineteen Million, One Hundred Thousand dollars (\$19,100,000).
2. The debt will be incurred primarily for the purpose of the rehabilitation of water mains and appurtenances within the system.
3. The total estimated project costs including cost of issuance, loan origination, etc., that will be borrowed are not to exceed Nineteen Million, One Hundred Thousand dollars (\$19,100,000).
4. Attached hereto is the latest Audited Financial Statement of the Providence Water Supply Board, showing the assets and liabilities of the utility.



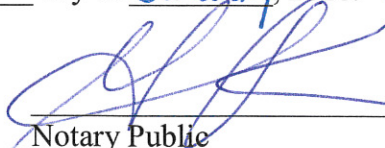
Xaykham Khamsyvoravong, Chairman



Carissa R. Richard, Secretary

STATE OF RHODE ISLAND
COUNTY OF PROVIDENCE

Subscribed and sworn before me this 17th day of January, 2020.



Notary Public
My Commission Expires: 12/11/22



Testimony
of
NANCY E. PARRILLO
before the
RI DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN SUPPORT OF APPLICATION FOR AUTHORIZATION TO BORROW
FROM THE RHODE ISLAND INFRASTRUCTURE BANK IN THE AMOUNT
OF \$19,100,000

for
PROVIDENCE WATER SUPPLY BOARD

March 2020
Docket No. D-20- _____

Providence Water Supply Board

Testimony of

Nancy E. Parrillo

Q. Please state your full name and title.

A. Nancy E. Parrillo, Senior Manager for the Providence Water Supply Board (Providence Water).

Q. How long have you been employed at Providence Water?

A. I have been employed at Providence Water since April 2015.

Q. Please describe your education and work experience.

A. I graduated from Wheaton College with a Bachelor of Arts Degree with a major in Economics, and from Bryant University with a Masters of Business Administration Degree, majoring in Finance. I was previously employed as the Chief Financial Officer of the Rhode Island Turnpike and Bridge Authority. Prior to that, I was employed by Tatum LLC, a financial services consultant for four and one half (4 ½) years. I also served as Chief Financial Officer of the Massachusetts Water Pollution Abatement Trust, the Massachusetts State Revolving Fund, from 1999 to 2005, and I served as Chief Financial Officer for the South Essex Sewerage District from 1994 to 1999.

Q. What is the purpose of your testimony?

A. To provide information in support of Providence Water's application to borrow \$19.1 million from the Rhode Island Infrastructure Bank (RIIB). The funds will be used to continue Providence Water's work on improvements to our distribution system and appurtenances, focusing on rehabilitation of water mains, transmission lines, service lines

1 and valves, and related expenses throughout the Providence Water system in accordance
2 with our agreement with the RI Department of Health (RIDOH).

3 **Q. Is this amount sufficient to cover the construction costs?**

4 A. This amount of \$19.1 million is estimated to be sufficient to cover the construction costs
5 for this portion of the project as well as the cost of issuance, origination fee to the RIIB,
6 and required debt service reserve fund. Any shortfall in the amount of funds available for
7 this portion of the project because of cost of issuance will be covered by cash in the
8 Infrastructure Replacement (IFR) Fund.

9 **Q. What is the source of funds for payment of the debt service?**

10 A. In order to pay the debt service, Providence Water will use rate revenue as approved by the
11 PUC. Because of the structure of the repayment schedules by the RIIB, Providence Water
12 does not need to ask for a rate increase to cover the initial repayments because the transfer
13 of rate revenue to the Restricted Infrastructure Replacement Fund is currently sufficient.
14 However, Providence Water has anticipated this borrowing and has included an estimate
15 for debt service in its current rate filing – Docket 4994 – that was submitted to the PUC on
16 December 2, 2019.

17 **Q. What will be the impact to ratepayers from this borrowing?**

18 A. This borrowing will not impact customers at this time. Any impact to the customer base
19 will be determined in conjunction with the resolution of Docket 4994.

20 **Q. Have you addressed the requirements of RIGL 39-3-17 regarding the approval of the**
21 **financing by the Providence Water Supply Board and the City of Providence?**

22 A. Yes, attached as **Exhibit I** is a Certificate of the Secretary of the Providence Water Supply
23 Board stating that at the January 15, 2020 Board Meeting, the Board authorized the General

1 Manager to seek approval of the Providence City Council for financing from the RI
2 Infrastructure Bank for an amount not to exceed \$19.1 million. The Ordinance approving
3 this borrowing has been forwarded to the City Council to appear on its next agenda and is
4 working its way through the approval process. A copy of the draft Ordinance is included
5 here. Please See **Exhibit II**. The final Ordinance will be forwarded once executed.

6 **Q. Have you presented a proforma capital structure showing the effect of the bond**
7 **issuance as required by Section 1.14 of the Rules of Practice and Procedure of the**
8 **Division?**

9 Yes, a present and proforma capital structure showing the effects of the bond issue is shown
10 at **Exhibit III**. Our projected debt to net property, plant and equipment (“debt to plant”)
11 with this issue would be 31.02%. (This percentage will change with asset values
12 capitalized at year end). Our financial advisor has indicated that rating agencies consider
13 a ratio of debt to plant less than 40% to be low and of 40% to 60% to be moderate.

14 **Q. How will the proceeds of the bond be utilized?**

15 A. As described in Ms. Gurghigian’s testimony, the estimated \$19.1 million of available bond
16 proceeds will be applied as follows:

17 ~ \$1,253,000 will be deposited with the trustee for a debt reserve fund; this represents one
18 year’s debt service cost.

19 ~ Approximately \$251,000 is allocated for cost of issuance, including rating agency fees,
20 bond counsel, financial advisor and trustee fees, and the origination fee.

21 ~The remaining funds totaling approximately \$17,596,000 million will be available for
22 funding construction.

23 These numbers are subject to change on the date of the sale, but these are close estimates
24 assuming the market is approximately flat over the next few months.

1 **Q. When is this loan scheduled for closing?**

2 The issuance of the bonds by RI Infrastructure Bank is anticipated in early spring of 2020.

3 **Q. What are the terms of the financing?**

4 A. The bonds will be issued under the Trust Indenture dated March 5, 2008. There will be a
5 Supplemental Indenture issued which relates to these bonds. In this filing, Maureen
6 Gurghigian, our financial consultant with Hilltop Securities, a division of Hilltop
7 Securities, Inc. provides testimony and additional information on the bond issuance and
8 debt service requirements. The general terms of the borrowing are:

9 ~ An estimated \$19.1 million, 20-year term borrowing through the RI Infrastructure Bank.

10 ~ Bonds will be funded through the Safe Drinking Water State Revolving Fund (SDWSRF)

11 and will have an interest rate subsidy of 25%, based on Providence Water's AA-

12 rating. The estimated effective interest rate is approximately 2.050% (see **Exhibit**

13 **IV).**

14 ~ The interest rate of the loan will be based on Providence Water's AA- rating, less a 25%

15 discount. An annual administrative fee of .5% of the outstanding loan balance will

16 be paid to RI Infrastructure Bank. The projected interest rate does not include the

17 administrative fee of RI Infrastructure Bank.

18 **Q. What is the security for the bonds?**

19 A. The bonds will be secured with a revenue pledge by the Providence Water Enterprise Fund
20 Revenues under the Providence Water Bond Indenture.

21 **Q. Has Providence Water received a commitment letter from the RI Infrastructure**
22 **Bank?**

23 A. Yes it has. See **Exhibit V.**

1 **Q. Has Providence Water received a Certificate of Approval from the RI Department of**
2 **Health?**

3 A. Not at this time. The application has been submitted to the RI Department of Health and
4 will be forwarded upon receipt. **(See Exhibit VI.)**

5 **Q. Is Providence Water seeking expedited consideration of this matter?**

6 A. No, however we would ask that approval be granted as soon as possible to ensure inclusion
7 in the next RIIB bond issue which is currently scheduled for late April/early May.

8 **Q. Does this conclude your testimony?**

9 A. Yes.

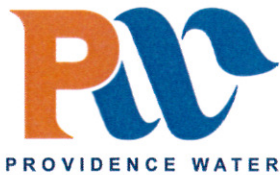
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Tap Water Delivers

RESOLUTION OF THE PROVIDENCE WATER SUPPLY BOARD

A Resolution of the City of Providence Water Supply Board expressing the intention of the Board to reimburse expenditures from the proceeds of the Notes, Bonds, or Loans for certain Infrastructure Improvements and to provide an effective date.

The Hon. Jorge O. Elorza
Mayor

Ricky Caruolo
General Manager

BOARD OF DIRECTORS

Xaykham Khamsyvoravong
Chairperson

Joseph D. Cataldi
Vice Chairperson

Michael J. Correia
Council President Pro Tempore

Jo-Ann Ryan
Councilperson

Sara Silveria
Ex-Officio

Cristen L. Raucci, Esq.
Member

Carissa R. Richard
Secretary

William E. O'Gara, Esq.
Legal Advisor

WHEREAS, the City of Providence Water Supply Board (the "Board") is an agency of the City of Providence, Rhode Island and owns and operates a Water Supply system (the "System"); and

WHEREAS, the Board desires to make certain improvements to the Board's distribution system and appurtenances thereto, including but not limited to the cleaning, relining, repair and replacement of water mains, transmission lines, service lines and valves (the "Project"); and

WHEREAS, it is the intent of the Board obtain financing from the Rhode Island Infrastructure Bank (RIIB) in an amount not to exceed nineteen million, one hundred thousand dollars (\$19,100,000.00) for the Project.

NOW, THEREFORE, BE IT RESOLVED:

- ❖ That the Board authorizes the General Manager to seek a bond ordinance from the City Council authorizing a borrowing and/or any other funding avenues for the Project.
- ❖ This resolution shall take effect upon passage.

The above and foregoing was duly adopted and approved at a meeting of the City of Providence Water Supply Board as held on January 15, 2020 by vote of the members of the Providence Water Supply Board present.

MEMBER

Rhode Island Water Works Assn.
New England Water Works Assn.
American Water Works Assn.
Water Research Foundation

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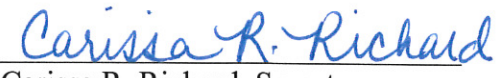
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Xaykham Khamsyvoravong, Chairman
Providence Water Supply Board


Carissa R. Richard, Secretary
Providence Water Supply Board

City of Providence
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

CHAPTER

No. AN ORDINANCE OF THE CITY OF PROVIDENCE APPROVING IMPROVEMENTS TO THE PROVIDENCE WATER SUPPLY BOARD'S DISTRIBUTION SYSTEM AND APPURTENANCES THERETO, INCLUDING, BUT NOT LIMITED TO THE CLEANING, RELINING, REPAIR AND REPLACEMENT OF WATER MAINS, TRANSMISSION LINES, SERVICE LINES AND VALVES, AND ALL ATTENDANT EXPENSES AND APPROVING THE FINANCING THEREOF BY THE ISSUANCE OF WATER REVENUE BONDS AND NOTES THEREFOR IN AN AMOUNT NOT TO EXCEED \$19,100,000

Approved

BE IT ORDAINED BY THE CITY OF PROVIDENCE THAT:

SECTION 1. The sum of Nineteen Million One Hundred Thousand Dollars (\$19,100,000) is appropriated for improvements to the Providence Water Supply Board ("Providence Water") distribution system and appurtenances thereto, including but not limited to cleaning, relining, repair and replacement of water mains, transmission lines, service lines and valves (the "Project"), including funding a debt service reserve fund and costs of issuance. The period of usefulness of the improvements financed as part of the Project is expected to be not less than forty (40) years.

SECTION 2. In accordance with Chapter 46-12.8 of the Rhode Island General Laws, the City Treasurer and the Mayor are hereby authorized to borrow an amount not exceeding Nineteen Million One Hundred Thousand Dollars (\$19,100,000) from the Rhode Island Infrastructure Bank, and to evidence such loan, such officers are hereby authorized to issue and refund on behalf of the City, in an amount not exceeding Nineteen Million One Hundred Thousand Dollars (\$19,100,000) water revenue bonds (the "Bonds") of the City, at one time, or from time to time in order to meet the foregoing appropriation.

SECTION 3. The said officers from time to time may issue and refund not exceeding \$19,100,000 interest bearing or discounted water revenue notes (the "Notes") in anticipation of the issue of said Bonds.

SECTION 4. The Bonds and Notes shall be payable solely from revenues of the Providence water supply system. The City may issue bonds, notes, or other obligations on a parity with these Bonds. The manner of sale, amount, denominations, maturities, conversion or registration privileges, interest rates, medium of payment, and other terms, conditions and details of the Bonds or Notes may be fixed by the officers authorized to sign the Bonds or Notes. The net debt of the City is not affected by the issuance of

the Bonds or Notes and the Bonds and Notes authorized hereby will be within all debt and other limitations prescribed by the Constitution and the laws of Rhode Island.

SECTION 5. Pending the issuance of the Bonds under Section 2 hereof or pending or in lieu of the issue of Notes under Section 3 hereof, the General Manager of Providence Water may expend funds from the Water Fund of the City for the purposes specified in Section 1 hereof. Any advances made under this section shall be repaid without interest from the proceeds of the Bonds or Notes issued hereunder or from the proceeds of applicable federal or state assistance or from other available funds.

SECTION 6. The City Treasurer, the Mayor and the General Manager of Providence Water are also authorized, empowered and directed, on behalf of the City, to: (i) execute, acknowledge and deliver a Supplemental Indenture (the "Supplemental Indenture") by and between the City and U. S. Bank, National Association, as trustee (the "Trustee") amending and supplementing the Trust Indenture dated June 5, 2008 by and between the City and the Trustee (as supplemented, the "Indenture") relating to the Bonds and any and all other loan agreements, documents, including disclosure documents for investors, certificates or instruments necessary to effectuate such borrowing; (ii) amend, modify or supplement the Indenture, the Bonds or Notes and any and all other loan agreements, documents, certificates or instruments at any time and from time to time, in such manner and for such purposes as such officers shall deem necessary, desirable or advisable; (iii) direct the Trustee with regard to investments of trust funds pursuant to the Trust Indenture, and (iv) do and perform all such other acts and things deemed by such officers to be necessary, desirable or advisable with respect to any matters contemplated by this Ordinance.

SECTION 7. The City Treasurer, the Mayor and the General Manager of Providence Water are hereby authorized to deliver the Bonds or Notes to the purchaser and said officers are hereby authorized and instructed to take all actions, on behalf of the City and Providence Water, necessary to ensure that interest on the Bonds or Notes will be excludable from gross income for federal income tax purposes and to refrain from all actions which would cause interest on the Bonds or Notes to become subject to federal income taxes.

SECTION 8. The Director of Finance, the Mayor and the General Manager of Providence Water are authorized to take all actions necessary to comply with federal tax and securities laws including Rule 15c2-12 of the Securities and Exchange Commission (the "SEC Rule") and to execute and deliver one or more Disclosure Certificates in connection with the Bonds or Notes in the form as shall be deemed advisable by the Director of Finance, the Mayor and the General Manager of Providence Water in order to comply with the SEC Rule. The City hereby covenants and agrees that it will comply with and carry out all of the provisions of the Disclosure Certificates, as they may be amended from time to time. Notwithstanding any other provision of this Ordinance or the Bonds or Notes, failure of the City or Providence Water to comply with a Disclosure Certificate shall not be considered an event of default; however, any Bondholder or Noteholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or Providence Water to comply with its obligations under this Section and under the Disclosure Certificate.

SECTION 9. This Ordinance shall take effect upon passage.

EXHIBIT III

PROVIDENCE WATER
CAPITALIZATION
6/30/2019

| | | <u>Due</u> | <u>Interest Rate</u> | <u>Actual Outstanding (1)</u> | <u>Pro-Forma Amount</u> |
|--|------|------------------|--------------------------|-----------------------------------|-----------------------------|
| <u>Long Term Debt:</u> | | | | | |
| Safe Drinking Water Revenue Bonds 2002 | (2) | 9/1/2021 | 3.61% | \$ 485,996 | \$ 485,996 |
| Safe Drinking Water Revenue Bonds 2008A | (3) | 9/1/2029 | 2.85% | 21,995,000 | 21,995,000 |
| ARRA Stimulus Bonds 2009 | (4) | 10/2/2015-9/1/30 | .041 - 3.14% | 6,237,250 | 6,237,250 |
| Clean Water Watershed Bonds 2012 | (5) | 9/1/2032 | .012 - 3.24% | 2,228,000 | 2,228,000 |
| Clean Water Watershed Bonds 2013 | (6) | 9/1/2033 | .019 - 2.53% | 3,296,000 | 3,296,000 |
| Safe Drinking Water Revenue Bonds 2013 | (7) | 9/1/2034 | .022 - 2.63% | 20,785,000 | 20,785,000 |
| Safe Drinking Water Revenue Bonds 2014 | (8) | 9/1/2034 | .022 - 3.01% | 6,656,000 | 6,656,000 |
| Safe Drinking Water Revenue Bonds 2015 | (10) | 9/1/2035 | .024 - 2.74% | 27,373,000 | 27,373,000 |
| Safe Drinking Water Revenue Bonds 2017 | (11) | 9/1/2036 | .012 - 2.64% | 15,560,095 | 15,560,095 |
| Safe Drinking Water Revenue Bonds 2019 | (11) | 9/1/2038 | 2.28 - 3.38% | 14,700,000 | 14,700,000 |
| Safe Drinking Water Revenue Bonds 2008 (ESWD) | (12) | 9/1/2028 | 3.00% | 110,000 | 110,000 |
| Safe Drinking Water Revenue Bonds 2009A (ESWD) | (12) | 9/1/2024 | 3.15% | 135,172 | 135,172 |
| Safe Drinking Water Revenue Bonds 2013A (ESWD) | (12) | 9/1/2033 | .012 - 2.64% | 448,740 | 448,740 |
| Safe Drinking Water Revenue Bonds 2018 (PSLSR) | (14) | 9/1/2024 | 0.00% | 350,615 | 350,615 |
| Safe Drinking Water Revenue Bonds 2020 | (11) | 9/1/2040 | 2.28 - 3.38% | - | 19,100,000 |
| Safe Drinking Water Revenue Bonds 2020 (PSLSR) | (14) | 9/1/2030 | 0.00% | - | 3,000,000 |
| Total Bonds | | | | \$ 120,360,868 | \$ 142,460,868 |
| Total Capitalization | | | | <u>\$ 120,360,868</u> | <u>\$ 142,460,868</u> |
| Total Assets (Unaudited) | (9) | | | \$ 492,816,831 | \$ 511,916,831 |
| Debt/Total Assets | | | | 24.42% | 27.83% |
| Net Utility Plant | (9) | | | \$ 440,179,409 | \$ 459,279,409 |
| Debt/Net Utility Plant | | | | 27.34% | 31.02% |

(1) Includes long term and current amounts.

(2) Borrowing 12/04/01 (WCWDS Improvements) from WCWDS Funds.

(3) Borrowing 05/19/08 CWFA08a for Various IFR Projects from IFR Funds.

(4) Borrowing 9/09 CWFA09 for Various Projects from ARRA Stimulus Funds.

(5) Borrowing 6/12 CWFA for Watershed Acquisition paid from WQPF.

(6) Borrowing 6/12 CWFA for Watershed Acquisition paid from WQPF.

(7) Borrowing 05/06/13 CWFA13 for Main Replacements & Appurtenances.

(8) Borrowing 12/04/14 CWFA14 for Main Replacements & Appurtenances.

(9) From Unaudited Balance Sheet Amounts as of 6/30/19

(10) Borrowing 12/02/2015 RIIB for Central Operations Facility.

(11) Borrowing 5/10/2017 RIIB for Water Main Rehabilitation / Replacement Project.

(12) Borrowing by the East Smithfield Water District (ESWD) assumed by Providence Water when ESWD merged with Providence Water Jan. 13, 2017.

(13) Borrowing scheduled for spring 2019 for Main Replacements & Appurtenances.

(14) Borrowing for the Private Side Lead Service Replacement Loan Program.

EXHIBIT IV

| PROVIDENCE WATER Comparison of Interest Rates | | |
|--|---------------|-----------|
| | Interest Rate | |
| Market Rate (AIC) | | 2.728% |
| Total Interest Payments | \$ | 5,725,253 |
| Below-Market Rate (AIC) | | 2.050% |
| Total Interest and Fee Payments | \$ | 4,914,230 |
| Savings: | | |
| Interest Rate | | 0.678% |
| Interest Payments | \$ | 811,023 |
| Interest Rate Savings/Market Rate | | 24.853% |

Prepared by HilltopSecurities



January 30, 2020

Richard Caruolo
General Manager
Providence Water Supply Board
125 Dupont Drive
Providence, RI 02907

RE: Providence Water Supply Board- up to \$19,100,000 for Drinking Water State Revolving Fund Loan for water distribution improvements.

Dear Mr. Caruolo,

I am pleased to inform you that the Board of Directors of Rhode Island Infrastructure Bank (the "Bank"), pursuant to policies and procedures adopted in accordance with the Safe Drinking Water Act Amendments of 1996 and Chapter 46-12.8 of the Rhode Island General Laws, has approved the December 20, 2019 application of the Providence Water Supply Board (the "Borrower") at the Bank's January 30, 2020 Board Meeting. The Bank shall provide financial aid in the form of a loan on the terms stated below, in an amount not to exceed \$19,100,000 for a term not to exceed 20 years after project completion.

This approval is subject to the Borrower meeting the following terms, that:

- 1) all projects to be funded appear on the Rhode Island Department of Health's (RIDOH's) Project Priority List and have Certificates of Approval (COA) issued;
- 2) the loan complies with all Federal, State, RIDOH and Bank laws, rules and regulations;
- 3) the loan and debt service requirements be approved by any applicable regulatory Agency;
- 4) a revenue pledge satisfactory to the Bank be accepted;
- 5) a satisfactory loan agreement be signed by all parties to the transaction;
- 6) the loan will be made subject to availability of funds as related to the Bank's capacity; and, that the loan will be made subject to ranking on RIDOH's Project Priority List.



TERMS AND CONDITIONS

1) Division of Public Utilities and Carriers

Prior to entering into a loan agreement, the Borrower must receive approval from the Division of Public Utilities and Carriers for entering into long-term financing with the Bank, if such approval is required by law, rule, or regulation.

2) Certificate of Approval

Prior to disbursement of funds by the Bank, the Bank must be in receipt of COA by RIDOH of the Borrower's proposed project(s), pursuant to Title 46-12.8 of the Rhode Island General Laws, and rules and regulations promulgated thereunder.

3) Loan Agreement

There will be a loan agreement (the Agreement) with the Borrower outlining the specific terms and conditions of the Bank's loan program, as more generally set forth below and in the Agreement, including the loan (the Loan) to the Borrower. The Borrower's repayment obligation to the Bank under the Agreement will be evidenced by a Bond(s) of the Borrower outlining the Loan's specific terms and conditions (the Bonds). The Bonds shall be in fully marketable form, accompanied by documentation, in form and substance satisfactory to the Bank, and an opinion, in form and substance satisfactory to the Bank, of nationally recognized bond counsel satisfactory to the Bank as to its valid authorization, execution, delivery and enforceability, as well as its Federal and state tax consequences, including, as applicable, an opinion that the bonds are not private activity bonds within the meaning of Section 141 of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code). The general provisions of the Agreement, which will be more fully set forth prior to the time of the pricing of the loan by the Bank will include (without limitation) the following provisions:

(a) Borrowing Rate

The stated interest rate on the Borrower Bond, which is the Borrower's market rate (the Market Rate), is the prevailing market tax-exempt interest rate for issuers of comparable creditworthiness to the Borrower, as determined by the Bank on the advice of the Financial Advisor after consultation with the Borrower. The subsidized interest rate for the Loan is 75% of the Market Rate (the Subsidized Interest Rate). The borrower will be obligated by the Borrower Bond to pay the Market Rate, but will be billed only for the Subsidized Interest Rate. If the Borrower or other borrowers of the Bank should default in timely payment of debt service on the Loan or on the loans to such other borrowers of the Bank, the Bank may require the Borrower to pay up to the Market Rate on the Borrower Bond.

Interest is to be calculated based on a 360-day year and twelve thirty-day months, and may be capitalized during construction. Interest payments are semi-annually on March



1 and September 1.

(b) **Amortization**

Amortization will begin at a mutually agreed upon date, but in no case later than September 1 after completion of the construction of the projects. Principal payments will be made annually on September 1 and the schedule of payments will be structured to meet the debt service and financial assistance needs of the Borrower.

(c) **Final Maturity**

Loans shall mature up to twenty years after the completion of the funded projects.

(d) **Prepayments**

A Loan may be prepaid by the Borrower at any time but may be subject to a prepayment penalty based on the cost of reinvesting the prepayment, the cost of prepaying outstanding bonds of the Bank or any other negative financial impact to the Bank.

(e) **Security**

The loan will have a pledge of (a) water system user fee revenues; and (b) may be secured by any assets and upon such other terms and conditions the Bank and Borrower deem appropriate to protect the interest of the other participants in the loan programs of the Bank; bondholders; other creditors of the Bank; or the finances of the Bank.

4) **Construction Progress Payments**

Progress payments for each construction project will be made through the Construction Proceeds Fund (CPF). Loan proceeds will be transferred to the CPF for the benefit of the Borrower based upon approved Requisition Forms submitted to the Bank. Upon receipt of the Requisition Form, the Bank will verify: a) that a COA has been issued by DOH; b) that the vendor is identified in the contract; and c) that there is sufficient availability in the CPF to make the payment. Payments will be made directly to the vendor and/or the Borrower for reimbursements by the Bank, and a "paid" stamped copy of the Requisition Form will be sent to the Borrower and DOH. DOH will perform periodic project inspections to a) monitor construction progress; b) verify eligibility of construction costs under the program; and c) ensure that construction is in conformity with Plans and Specifications. DOH will perform periodic inspections to a) monitor construction progress; b) verify eligibility of construction costs under the program and c) ensure that construction is in conformity with Plans and Specifications. DOH will provide a copy of the inspection report to the Bank. Any adverse conditions will be reported to the Bank who will suspend further payments until the adverse conditions have been rectified. DOH will perform a final project inspection before the final payment is made by the Bank.

5) **Reporting Requirements**

The Borrower will be required to provide information to the Bank during the life of the Loan. These are:

- (a) a copy of the annual audited financial statements of the Borrower's water system in accordance with Generally Accepted Government Accounting Standards, annually within 9 months of end of fiscal year.
- (b) unless included as a part of the annual budget furnished pursuant to item (c) or the audited financial statements furnished pursuant to item (a), an analysis of operating revenues and expenses, including without limitation, a description of the status of all revenues securing the Revenue Bond and of any operating expenses in excess of budget, annually within 9 months of the end of fiscal year.
- (c) a copy of the annual budget of the Borrower's water system, within fifteen days of its adoption.
- (d) unless included as a part of the annual budget furnished pursuant to item (c) or the audited financial statements furnished pursuant to item (a), a schedule of current and projected short-term and long-term debt service secured by water system revenues, annually with the aforesaid budget.
- (e) unless included as a part of the annual budget furnished pursuant to item (c) or the audited financial statements furnished pursuant to item (a), a schedule of capital replacement reserves, annually with the aforesaid budget.
- (f) copies of reports submitted to DOH, the federal Environmental Protection Agency ("EPA") and any other regulatory agency relating to any project financed by the Bank or the operation thereof, simultaneously with such submission.
- (g) such other information or reports as and when the Bank may reasonably require.

6) **Compliance with State and Federal Law**

The Borrower must comply with all applicable state laws and regulations. Recipients of loans must also comply with all requirements of the Federal Safe Drinking Water Act, as amended and regulations issued thereunder, in addition to any other applicable Federal laws and regulations (see attached: Davis-Bacon prevailing wage requirements and EPA Guidance on Use of American Iron and Steel, as applicable).

In addition, the Borrower must agree to take all action, or refrain from taking any action, that would cause interest on any obligations of the Bank to be included, for federal income tax purposes, in the gross income of the holders of such obligations.



7) **Fees**

An origination fee of the greater of \$1,000 or one percent (1%) of the principal amount of the Loan will be payable to the Bank by the Borrower at the time of the Loan's closing. All other costs incidental to the Borrower's role in the transaction (i.e., legal fees, financial advisory fees, bond insurance premiums and the like, will be paid by the Borrower). The Bank will charge an annual service fee of three-tenths of one percent (0.3%) of the Loan's outstanding principal, payable semi-annually at each interest payment date. A late payment fee will be charged for every 15 days that a payment is late of five percent (5%) of the amount of the late payment.

8) **Modifications**

Where deemed appropriate by the Bank and the Borrower, waiver or variation of any provisions herein may be made or additional requirements may be added.

9) **Merger**

Once the Agreement, the Bond and all other closing documents, in form and substance satisfactory to the Bank, associated with the making of the Loan (collectively, the "Closing Documents") are executed, the terms of this letter shall be merged with those of the Closing Documents. The terms of the Closing Documents will govern the extension of the Loan to the Borrower. To the extent that any provisions contained in this letter are inconsistent with the definitive provisions contained in the Closing Documents, the terms of the Closing Documents shall control.

10) **Beneficiaries**

This letter shall constitute a binding commitment between the Bank and the Borrower but no third party shall have any rights arising hereunder and the Borrower shall indemnify and hold the Bank harmless from all claims arising from or in connection with this letter, the Loan or the project financed thereby. In any case, the Bank's liability under this letter shall be limited to the amount held in the Borrower's CPF from time to time.

Please sign and return one original copy of this letter to the Bank at 235 Promenade Street, Suite 119, Providence, RI 02908.



I would like to take this opportunity to thank you for your participation with the Bank. Please be assured that every effort will be made to get the lowest total cost for your long-term capital needs. If you have any questions, please do not hesitate to call me.

Very truly yours,

RHODE ISLAND INFRASTRUCTURE BANK

By: 
Jeffrey R. Diehl, Executive Director and CEO

Accepted this 14 day of February, 2020

By: 

Title: General Manager Providence Water
Authorized Official

Name and Address of Legal Counsel and/or Bond Counsel to the Borrower

cc: Carlene Newman – RIDOH
Christopher Vitale, Esq., Bank Legal Counsel

Providence Water Supply Board

EXHIBIT VI

RI Department of Health Certificate of Approval

The application has been submitted to the Department of Health. The executed Certificate of Approval will be submitted upon receipt.

STATE OF RHODE ISLAND DIVISION OF PUBLIC UTILITIES AND CARRIERS

DOCKET No. 20 - _____

ATTESTATION UNDER RULE 1.14
OF THE RULES OF PRACTICE AND PROCEDURE
OF THE DIVISION OF PUBLIC UTILITIES AND CARRIERS

I, Nancy E. Parrillo, in conformance with Rule 1.14 of the Rules of Practice and Procedure of the Division of Public Utilities and Carriers, hereby attest under oath that the facts contained in my direct testimony with exhibits and supporting documents are true and correct to the best of my knowledge, information, and belief. All changes and differences between books and test year data and any changes in the manner of recording said data during the test year have been expressly noted.

Nancy E. Parrillo
Nancy E. Parrillo



STATE OF RHODE ISLAND
PROVIDENCE COUNTY

Subscribed and sworn to me this 12th day of March, 2020.

Joseph P. Murphy
Notary Public
My commission expires: 4-7-2022

Testimony
of
GREGG M. GIASSON, PE
before the
RI DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN SUPPORT OF APPLICATION FOR AUTHORIZATION TO BORROW FROM THE
DRINKING WATER STATE REVOLVING FUND IN THE AMOUNT OF \$19,100,000

for

PROVIDENCE WATER

March, 2020
Docket No. D-20- _____

1 **Q. Please state your name and your position.**

2 A. My name is Gregg M. Giasson and I am the Deputy General Manager of
3 Operations/Executive Engineer for the Providence Water Supply Board. I have general
4 oversight of the Engineering, Water Supply and Transmission & Distribution Departments.

5
6 **Q. Please describe your educational background and work experience.**

7 A. I obtained a Masters of Science in Environmental Engineering from Worcester Polytechnic
8 Institute in 2001 and a Bachelor of Science in Civil Engineering from Tufts University in
9 1992. I have worked for the Providence Water Supply Board for just over seven years, the
10 first two years as the Senior Director of Operations and the last five years as the Deputy
11 General Manager of Operations/Executive Engineer. From 2008 to 2012, I worked for the
12 Pawtucket Water Supply Board as the Assistant Chief Engineer/Chief of Operations. Prior to
13 Pawtucket, I worked at the consulting firm Camp, Dresser & McKee for 12 years where I
14 worked on a variety of drinking water projects as both a project engineer and project
15 manager. I am a Registered Professional Engineer in the State of Rhode Island. I am also a
16 licensed Grade 4 Distribution and Grade 4 Treatment Operator in Rhode Island.

17
18 **Q. What is the primary use of the funds from this borrowing?**

19 A. The funds for this borrowing will primarily be used for distribution water main rehabilitation.

20

21

1 **Q. What specific projects will this borrowing fund?**

2 A. The funding from this borrowing will pay for two large distribution water main rehabilitation
3 projects in the Blackstone Area of Providence and the Auburn area of Cranston. In addition,
4 this funding will utilized to fund smaller water main rehabilitation projects in Providence,
5 Cranston, Smithfield and Johnston. A detailed listing of projects and estimated costs is
6 attached as **Exhibit GG-1**.

7

8 **Q. Is Providence Water currently in compliance with the Lead and Copper Rule (LCR)?**

9 A. Yes, Providence Water is technically in compliance with the LCR,. However we exceeded
10 the lead Action Limit (AL) of 15 ppb each year (with the exception of 2015) since 2006.
11 Because Providence Water exceeded the lead AL, we are required to test on a biannual
12 semester basis. The first semester runs from January through June and the second semester
13 runs from July through December.

14

15 **Q. What are the consequences of exceeding the lead Action Level?**

16 A. If a utility exceeds the AL, there are a variety of requirements such as increased monitoring
17 frequency, evaluation of corrosion control practices, public education requirements, and
18 annual replacement of 7% of the utility's lead service line inventory. However, in 2011, the
19 Environmental Protection Agency's (EPA) Science Advisory Board (SAB) opined that
20 "Partial (Lead Service) Replacements have not been shown to reliably reduce drinking water
21 lead levels in the short term, ranging from days, to months and potentially longer". As a
22 result, Providence Water and Rhode Island Department of Health (RIDOH) have entered into

multiple Bilateral Compliance Agreements (BCA) granting Providence Water stays on the annual replacement of 7% of our lead service lines.

Q. What is the status of the BCA with RIDOH?

A. Providence Water signed the most recent BCA for 2019/2020 on November 8, 2019 (attached as **Exhibit GG-2**).

Q. What are the general requirements of the BCA?

A. The 2019/2020 BCA mostly focuses on establishing a public and private side lead service line database and investigating ways to increase the amount of customers who replace the private side of their lead service line. The two requirements that have significant financial impacts are (1) annual flushing of 90 miles of water main, and (2) main rehabilitation in the amount of \$19,100,000 per year in state fiscal years 2020, 2021, and 2022. Therefore, we need this borrowing in order to remain compliant with the BCA with RIDOH.

Q. Mr. Giasson, does that conclude your testimony?

A. Yes, it does

Exhibit GG-1

ATTACHMENT - SUMMARY OF ESTIMATED COSTS

| <u>PROJECT / DESCRIPTION</u> | <u>ESTIMATED COST</u> |
|--|------------------------------|
| <u>CALENDAR YEAR 2020 - WATER MAIN REHABILITATION</u> | |
| Water Main Rehabilitation - Contract 2020-1 - Providence - Blackstone | \$ 3,100,000.00 |
| Water Main Rehabilitation - Contract 2020-2 - Cranston - Auburn | \$ 2,680,000.00 |
| Water Main Rehabilitation - Providence - Plain Street | \$ 2,000,000.00 |
| Water Main Rehabilitation - Providence - Benefit Street | \$ 1,000,000.00 |
| Water Main Rehabilitation - Smithfield - Old County Road/Esmond Street | \$ 2,250,000.00 |
| Water Main Rehabilitation - Johnston - Atwood Avenue | \$ 1,000,000.00 |
| Water Main Rehabilitation - Cranston - Knightsville and Other Misc Areas | \$ 2,000,000.00 |
| Water Main Rehabilitation - Completion of 2019 Contracts/Projects | \$ 2,000,000.00 |
| Other - Miscellaneous Water Main Rehabilitation & Improvements | \$ 1,570,000.00 |
| Borrowing Costs for Loan | \$ 1,500,000.00 |
| TOTAL ESTIMATED COSTS - WATER MAIN REHABILITATION = | \$ 19,100,000.00 |
| <u>CALENDAR YEAR 2021 - WATER MAIN REHABILITATION*</u> | |
| Water Main Rehabilitation - Contract 2020-3 - Providence - Charles St | \$ 8,000,000.00 |

* This project was delayed till Calendar Year 2021 and it is anticipated that it will be covered under future bonds. It is included on this list in case there is still money remaining on this bond when the project begins in the spring of 2021

Exhibit GG-2

DEPARTMENT OF HEALTH
CENTER FOR DRINKING WATER QUALITY

vs

CITY OF PROVIDENCE

PWS ID# 1592024

7018 1830 0001 1470 0597

BILATERAL COMPLIANCE AGREEMENT

WHEREAS, the Department of Health (RIDOH) has responsibility for safe drinking water and regulatory authority over public water systems in the state of Rhode Island; and

WHEREAS, the City of Providence public drinking water system (Providence Water) supplies water to people in the state of Rhode Island; and

WHEREAS, RIDOH drinking water regulations in accordance with USEPA standards require water testing for lead contamination; and

WHEREAS, Providence Water samples taken in accordance with RIDOH regulations *and* EPA standards have demonstrated a lead level which exceeds the established action level and triggers a lead service line (LSL) replacement program whereby seven percent (7%) of the service lines (SL), as determined in 2005, must be replaced annually; and

WHEREAS, Providence Water was up to date through calendar year 2011 on its 7% SL replacements; and

WHEREAS, concerns have been raised about the effectiveness of partial LSL replacement in reducing lead exposure through water and the abatement of lead contained in water supplied by Providence Water; and

WHEREAS, potentially more effective ways to reduce lead exposure through water and the abatement of lead contained in water supplied by Providence Water have been tentatively identified, including optimized treatment, a system-wide unidirectional flushing program, and an extensive infrastructure program consisting of cleaning, lining, and main replacement of the estimated 50 to 55% of the distribution system that is composed of unlined cast iron pipe; and

WHEREAS, RIDOH has a lead abatement program designed to address the issue of lead reaching the citizenry of Rhode Island;

NOW, THEREFORE, RIDOH and Providence Water agree to the following:



1. RIDOH will grant Providence Water a stay during 2019 and 2020, on its 7% SL replacement requirement. In lieu of LSL replacement, Providence Water shall continue/initiate the following activities:
2. Providence Water will continue consultation with its expert advisory panel to evaluate corrosion control treatment in the Providence Water's water system, including consideration of simultaneous compliance issues. Costs of convening the panel, such as travel and hotel accommodations, shall be borne by the Providence Water Supply Board. The panel shall continue to be composed of representatives from academia, and water supply professionals; its composition shall not change except with the approval of RIDOH. Providence Water shall meet with the expert advisory panel at least annually and report minutes of the meeting in the next annual corrosion control report that follows each meeting.
3. Providence Water shall continue optimization of corrosion control with the approved partial system orthophosphate treatment pilot project.
 - a) Due to the influence of additional pilot project samples on representative compliance sampling, two 90th percentile calculations for lead and copper will be reported, both inclusive and exclusive of the orthophosphate pilot project samples, and the higher value of the two 90th percentile calculations will be considered for compliance purposes.
 - b) Providence Water shall produce monthly progress reports on the status of the orthophosphate treatment demonstration project including all water quality parameter data associated with the project according to the approved sampling plan. These reports shall be submitted on the 27th of the following month.
 - c) Providence Water shall also submit a schedule of water main coupons and SL sample harvesting plans, pipe scaling progress, and scaling analyses from coupons and samples within the demonstration area as they become available. A schedule of pipe harvesting and scale analysis to be conducted shall be submitted to RIDOH by 2/1/2020.
 - d) RIDOH shall be provided an annual update on all activity related to corrosion control by Providence Water. The annual corrosion control report for 2019 shall be submitted by February 1st, 2020.
 - e) Providence Water, or a party contracted by Providence Water, shall reply in writing to all comment letters issued to Providence Water by RIDOH engineers, within 30 days of receipt.
4. Until such time as corrosion control has been deemed optimized, Providence Water shall remain on standard monitoring, as specified in the Public Drinking Water Regulations [216-RICR-50-05-1] (Regulations), Section 1.7.7 (A) through (D), and Water Quality Parameter monitoring as specified in Section 1.7.8 (A) through (D). Providence Water shall also continue to meet the requirements regarding public education as specified in the Regulations, Section 1.7.6, and reporting requirements as specified in Section 1.7.11.
5. Providence Water shall initiate and/or continue measures to address the condition of Providence Water's distribution system, which is believed to be contributing to the presence of lead in the water. These measures shall include but not be limited to:
 - a) A system-wide unidirectional flushing program (UDF). An updated schedule and implementation plan for UDF shall be submitted to RIDOH for approval no later than July 1, 2020. The UDF plan will be aggressive in approach and shall include at least 90 miles per year. The plan shall also include the number of total miles and percentage of distribution system flushed as of present, and information on the zones within the UDF program.

- b) Providence Water shall comply with the terms of the approved Infrastructure Replacement Plan regarding main rehabilitation and replacement, which is understood to mean unlined cast iron mains, for the State fiscal years 2020, 2021, and 2022 in the amount of \$19,100,000 each year. In the event Providence Water's most recent rate filing request is denied by the Rhode Island Public Utilities Commission (RIPUC), to be decided no later than 2020, RIDOH and Providence Water shall agree to revised dollar amounts under this part within 30 days of RIPUC's decision. If a revised amount is not agreed upon by both parties within 30 days the dollar amount will default to an amount of \$19,100,000, each year.
- 6. Prior to commencing scheduled or emergency system repairs or water main infrastructure replacement work which requires partial or full LSL replacements during 2019 and 2020, Providence Water shall comply with the provisions of Section 1.7.5(D), regarding notification and education. Also, Providence Water shall provide NSF/ANSI-certified point-of-use water pitcher treatment units and one replaceable filter to affected residents who may experience short-term elevated lead levels in drinking water as a result of a partial or full LSL replacement. Providence Water shall also provide instructions and education on proper use of the provided filters. Affected residents shall also be notified as soon as possible of the interest free loan opportunities for full LSL replacement and, at a minimum, as soon as a work schedule for SL replacement has been identified.
 - 7. Residents who are provided water filters by Providence Water and found to have tap sample results for lead above 150 parts per billion, shall be notified within 1 business day of Providence Water receiving results from a laboratory. In this instance, business days are Monday through Friday, with state observed holidays excepted. This notification must instruct residents to discontinue use of tap water for drinking and cooking and to discard any currently installed filter cartridge(s), until follow up sample results show concentrations below 150 parts per billion, and new filter cartridge(s) can be installed.
 - 8. Providence Water shall use best efforts to solicit and conduct additional full LSL replacements. Providence Water shall prioritize efforts in areas with the greatest numbers of vulnerable populations including day care centers and schools. Providence Water shall complete the following requirements to solicit and conduct full LSL replacements by the corresponding due dates:
 - a) Meet with City of Providence staff to discuss the feasibility of using Community Development Block Grant funds from the US Department of Housing and Urban Development to conduct full LSL replacement using the strategy and framework employed by the Town of North Providence as guidance, or meet with City of Providence staff to discuss the proposal of a city ordinance to require full LSL replacement at the time of sale of any residential or commercial property. Providence Water shall hold either of these meetings and submit to RIDOH a summary of the discussion and outcomes, including minutes of the meeting, on or before December 1, 2020.
 - b) Meet with municipalities served by Providence Water to provide outreach on LSL replacement strategies. Outreach shall include the progress of Providence Water and other municipalities in implementing LSL replacement plans, including demonstrated successes in obtaining monies and implementation of such plans. Outreach to municipalities shall also include educational information on how municipalities can take advantage of existing programs and monies to implement comprehensive LSL replacement plans. Providence Water shall hold this meeting and submit to RIDOH a summary of the discussion and outcomes, including minutes of the meeting, on or before December 1, 2020.
 - c) Submit a summary on comprehensive promotional efforts and utilization of the \$1,250,000 granted by the Public Utilities Commission & Rhode Island Infrastructure Bank to conduct private LSL replacement at 0% interest financing over the course of three years. This summary shall include a list of all promotional materials with distribution dates and the number of participants, and their service locations by municipality, that have successfully received SL replacement under this program to date. Providence Water shall submit this summary to RIDOH by February 1, 2020.
 - d) Submit a summary of LSL replacements. The summary shall include the number of partial and full replacements, and the estimated number of public and private side LSLs remaining. Providence Water shall submit this summary to RIDOH by February 1, 2020.

- e) Consumers discovered to have private LSLs shall be issued written notification of their SL's composition, provided with public education materials, information regarding Providence Water's free lead sampling program, and the financial opportunities available for replacement, within 30 days of discovery. Consumers with currently known private LSLs shall be issued or reissued this notification. Providence Water shall issue or reissue notification to consumers and submit a summary of these notifications to RIDOH by September 1, 2020.
 - f) Known non-lead private SLs that have a public LSL shall be identified and prioritized for public LSL replacement as soon as possible but no later than 6 months. Newly discovered SLs that fit this description shall also be replaced as soon as possible but no later than 6 months after being identified. A summary of the number of these sites identified, and those scheduled for replacement shall be submitted by Providence Water to RIDOH by February 1, 2020.
9. Providence Water shall continue to survey all private side SLs to identify or confirm plumbing material composition. Providence Water shall survey the number of private SLs, equal to the number of water meters that Providence Water replaces or inspects, annually. Results of these surveys, including material composition of plumbing and the corresponding street address, shall continue to be submitted to RIDOH in the form of a summary, including a spreadsheet, by February 1st, 2020 and annually thereafter. The summary shall include all current private SLs. Plumbing material composition of the SL shall be reported as either "suspected lead service line" for buildings constructed before 1940, "plumbing material not yet determined" for buildings constructed after 1940, "known lead service line" or "known non-lead service line" accordingly. Private side SLs, surveyed during meter replacement/inspection after October 1, 2018, shall be identified as either "known lead service line" or "known non-lead service line". Instances where plumbing material composition cannot be determined during inspection or replacement shall be identified as "suspected lead" for buildings constructed before 1940 and "plumbing material could not be determined" for buildings constructed after 1940. The summary shall also include the number of all private LSL replacements that have occurred to date.
10. Providence Water shall continue to provide individual lead & copper sampling results and locations, on Providence Water's website, in an approved, electronic, and searchable format, accessible by the public. By May 1, 2020, all individual lead & copper sampling results, including compliance and consumer requested samples, shall be included on this website within 72 hours of Providence Water receiving certified results from a laboratory.
11. Providence Water shall continue to include all known and suspected private SL plumbing material composition in Providence Water's "Lead Service Location Map" and it shall be updated quarterly as private SL surveys are performed. By May 1, 2020 Providence Water shall include all individual lead & copper sampling results, including compliance and consumer requested samples, within Providence Water's "Lead Service Location Map".
12. Providence Water shall continue to maintain a prominent weblink, to a primary webpage for all information regarding lead in drinking water, on the Providence Water website homepage. The weblink must be as prominent as the major weblinks on the current homepage, e.g. "Pay your water bill", "Customer service", "Report a problem". The primary lead in drinking water webpage shall prominently display the most recent 90th percentile lead results and the LCR lead action level, as well as the required health effects language associated with lead. The primary lead in drinking water webpage shall also include a prominently displayed weblink to the "Lead Service Location Map". A weblink to the online lead results shall also be located on the primary lead in drinking water webpage. Lastly, Providence Water shall include information regarding the ongoing orthophosphate treatment evaluation under the "Corrosion Control" section of Providence Water's website.
13. Providence Water's annual Consumer Confidence Report (CCR) for 2020, and subsequent CCRs, shall include a prominently displayed weblink to Providence Water's primary lead in drinking water webpage on the first page of the CCR. The 2020 CCR (calendar year 2019) and subsequent CCRs shall report the highest of two 90th percentile calculations for lead and copper, one inclusive and one exclusive of the orthophosphate pilot project samples.

14. Should Providence Water, after having been given notice of any alleged deficiencies, and opportunity to cure any such deficiencies in performance relating to this agreement or fail to meet the requirements of items one (1) through thirteen (13) above, an administrative fine calculated by RIDOH shall be paid.
15. Should Providence Water feel that the requirements of this Bilateral Consent Agreement cannot be met within budget, time or managerial constraints, and that the terms need to be modified, Providence Water shall notify this office immediately, and request a meeting at which a detailed justification of the requested modification shall be presented, including a description of the efforts made to comply with the terms as written.
16. This bilateral consent agreement shall be renegotiated and updated by January 1, 2021, to reflect changes to the Safe Drinking Water Act "Lead and Copper Rule" that may or may not be promulgated by the EPA, and any other changes in circumstances that may necessitate altering this Agreement. This bilateral consent agreement shall not in any way negate early implementation requirements associated with promulgation of proposed revisions to the Safe Drinking Water Act "Lead and Copper Rule", in the event promulgation is finalized before any due date in this agreement.

This Bilateral Consent Agreement is satisfactory and accepted by both parties. The terms of this Agreement shall become effective upon signing by both parties.

| | |
|--|--|
|  |  |
| 2/25/2020 | 1/13/20 |
| (Date) | (Date) |
| Ricky Caruolo | June Swallow, P. E., Chief |
| Providence Water | R.I. Center for Drinking Water Quality |
| PWS#1592024 | |

TESTIMONY

of

MAUREEN E. GURGHIGIAN

before the

RI DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN SUPPORT OF PROVIDENCE WATER SUPPLY BOARD'S
APPLICATION FOR AUTHORIZATION TO BORROW
FROM THE DRINKING WATER STATE REVOLVING FUND
IN AN AMOUNT
NOT TO EXCEED \$19,100,000

[March 2020]

Docket No. D-20-

PROVIDENCE WATER SUPPLY BOARD
TESTIMONY OF
MAUREEN E. GURGHIGIAN
[March 2020]

1 **Q: Please state your name and business address.**

2 A: My name is Maureen E. Gurghigian and I am a Managing Director at Hilltop
3 Securities Inc. (“HilltopSecurities”) in the Lincoln, Rhode Island branch office.

5 **Q: Please state your duties at HilltopSecurities.**

6 A: I am a member of the firm’s public finance department and the lead financial
7 advisor in Rhode Island providing municipal advisory services to state, local and
8 regional government agencies for infrastructure projects in the water, wastewater,
9 education and transportation sectors among others primarily in Rhode Island,
10 Connecticut and Maine. I have supervisory responsibility for HilltopSecurities’
11 involvement with borrowings by numerous public agencies and more than 25
12 Rhode Island agencies and municipalities. Our office assists clients with the
13 origination of more than \$800 million in public financing issues annually.

15 **Q: Please describe your qualifications and experience.**

16 A: I have approximately 35 years’ experience in the public finance field. I hold a
17 Masters Degree in business administration from the University of Rhode Island. I
18 am a registered Municipal Principal with the Municipal Securities Rulemaking
19 Board, holding the following licenses: Series 52, Series 53 and Series 63, as well as
20 the Series 50, Municipal Advisor Representative License. Prior to joining First
21 Southwest, the predecessor firm to HilltopSecurities, in 2001, I worked in public
22 finance for Fleet Bank and/or Fleet Securities for sixteen years. From 1993 through
23 2000, I served as Manager of New England Public Finance and Investment Banking
24 at Fleet Securities, Inc. Before joining Fleet, I spent eight years in Rhode Island
25 State Government, including four years as Director of the Governor’s Policy Office
26 under then Governor J. Joseph Garrahy.

28 **Q: Have you previously testified before the Public Utilities Commission and**
29 **Division of Public Utilities and Carriers?**

PROVIDENCE WATER SUPPLY BOARD
TESTIMONY OF
MAUREEN E. GURGHIGIAN
[March 2020]

1 A: Yes, I have provided testimony before the Public Utilities Commission
2 (“Commission”) and the Division of Public Utilities and Carriers (“Division”) on
3 behalf of the Kent County Water Authority, Woonsocket Water Division,
4 Pawtucket Water Supply Board, the City of Newport, Water Division and the
5 Providence Water Supply Board (“Providence Water”).
6

7 **Q: Please describe your role in this proceeding.**

8 A: I am providing assistance to Providence Water and its financing team with respect
9 to the issuance of debt through Rhode Island Infrastructure Bank (“RIIB”). I have
10 been asked by Providence Water to provide information on the debt service
11 requirements for its proposed borrowing, and to respond to related questions.
12

13 **Q: Please discuss Providence Water’s financing plans.**

14 A. As set forth in its Application for Approval of Borrowing Authority, Providence
15 Water seeks to obtain a loan in the amount of up to nineteen million and one
16 hundred thousand dollars (\$19,100,000). It is expected that the loan will be funded
17 by RIIB under the Rhode Island Safe Drinking Water State Revolving Fund
18 (DWSRF). The loan will finance continued improvements to the distribution system
19 including but not limited to the cleaning, relining, repair and replacement of water
20 mains, transmission lines, service lines, and valves, and all attendant expenses (the
21 “Project”). Nancy Parrillo has described the Project in her testimony, and I will
22 provide the details of the financing for the Project.
23

24 **Q. Can you explain how the financing will work for the \$19,100,000 borrowing?**

25 A. Yes. Providence Water has borrowed from the State Revolving Fund in the past.
26 This loan will be similar to those previously approved by the Division. In
27 accordance with the Safe Drinking Water Act Amendments of 1996, the State of
28 Rhode Island has created a Drinking Water State Revolving Fund administered by
29 RIIB to provide financial assistance to water suppliers. This fund uses federal
30 capitalization grants and state matching funds to provide subsidized (25% below

PROVIDENCE WATER SUPPLY BOARD
TESTIMONY OF
MAUREEN E. GURGHIGIAN
[March 2020]

1 market-rate) loans to water suppliers for qualifying projects listed on the Project
2 Priority List maintained by the Department of Health. RIIB receives capitalization
3 grants from the federal government, state match and sells bonds in the public
4 market to obtain capital to make loans to its drinking water borrowers pursuant to
5 loan agreements. This project has been identified in Providence Water's capital
6 program and is listed on the Department of Health's Project Priority List. Therefore,
7 this project qualifies for a subsidized DWSRF loan from RIIB.

8
9 **Q: What is the term of this borrowing and the applicable interest rate?**

10 A. The term is approximately 20 years from the projected completion of construction.
11 The expected interest cost will reflect a subsidized rate of 25% off the current
12 market rates. Based upon market conditions as of January 21, 2020, it is anticipated
13 that the interest rate on the loan will not exceed a market rate of 2.73%, which
14 would result in a projected subsidized rate of approximately 2.05%. For purposes
15 of Division approval, we would recommend a not to exceed market rate of 3.0%
16 and a subsidized rate of 2.25% to allow for market movement.

17
18 **Q: How will the funds from this borrowing be disbursed?**

19 A: Approximately \$17,596,000 will be available for Project expenditures,
20 approximately \$1,253,000 will be set aside in the debt service reserve fund, and
21 approximately \$251,000 is allocated for costs of issuance, including rating agency
22 fees, bond counsel, financial advisor and trustee fees, and the origination fee.

23
24 **Q: What are the applicable schedules and deadlines for this financing?**

25 A: This borrowing is anticipated to take place in the first or second quarter of 2020.
26 RIIB requires that all borrower approvals be in place prior to mailing the RIIB
27 Preliminary Official Statement and/or pricing borrower loans.

28
29 **Q: What is the projected schedule of debt service for the contemplated new**
30 **borrowings?**

**PROVIDENCE WATER SUPPLY BOARD
TESTIMONY OF
MAUREEN E. GURGHIGIAN
[March 2020]**

1 A. The projected debt service for the new borrowings is displayed in Schedule MG-1.
2 For the \$19,100,000 loan, annual debt service is expected to be approximately
3 \$1,260,000 per year at the projected interest rates, including the RIIB annual fee.
4 This amount is subject to change based upon the actual project costs, draw schedule
5 and prevailing interest rates at the time of borrowing.

6

7 **Q: Does this complete your testimony?**

8 A: Yes it does.

Rhode Island Infrastructure Bank
Safe Drinking Water SRF Program - Providence Water Supply Board Loan
Preliminary Pricing as of 1/21/2020 + 75bps

Loan Debt Service

Providence Water- \$19.1M DWSRF Loan (AA Rated, Revenue Pledge)

| Date | Principal | Loan Rate | (1) Interest | Net Fees @ 0.300% | Total Fees & Interest | Total Net Debt Service | Annual Net Debt Service & Fees |
|----------------------|--------------|-----------|---------------------|----------------------|-----------------------|------------------------|--------------------------------|
| 05/27/20 | | | | | | | - |
| 09/01/20 | 1,000.00 | 1.250% | 92,263.60 | 14,961.67 | 107,225.27 | 108,225.27 | 108,225.27 |
| 03/01/21 | - | - | 176,468.45 | 28,648.50 | 205,116.95 | 205,116.95 | - |
| 09/01/21 | 848,000.00 | 1.250% | 176,468.45 | 28,648.50 | 205,116.95 | 1,053,116.95 | 1,258,233.90 |
| 03/01/22 | - | - | 171,168.45 | 27,376.50 | 198,544.95 | 198,544.95 | - |
| 09/01/22 | 861,000.00 | 1.290% | 171,168.45 | 27,376.50 | 198,544.95 | 1,059,544.95 | 1,258,089.90 |
| 03/01/23 | - | - | 165,615.00 | 26,085.00 | 191,700.00 | 191,700.00 | - |
| 09/01/23 | 875,000.00 | 1.300% | 165,615.00 | 26,085.00 | 191,700.00 | 1,066,700.00 | 1,258,400.00 |
| 03/01/24 | - | - | 159,927.50 | 24,772.50 | 184,700.00 | 184,700.00 | - |
| 09/01/24 | 889,000.00 | 1.330% | 159,927.50 | 24,772.50 | 184,700.00 | 1,073,700.00 | 1,258,400.00 |
| 03/01/25 | - | - | 154,015.65 | 23,439.00 | 177,454.65 | 177,454.65 | - |
| 09/01/25 | 903,000.00 | 1.350% | 154,015.65 | 23,439.00 | 177,454.65 | 1,080,454.65 | 1,257,909.30 |
| 03/01/26 | - | - | 147,920.40 | 22,084.50 | 170,004.90 | 170,004.90 | - |
| 09/01/26 | 918,000.00 | 1.400% | 147,920.40 | 22,084.50 | 170,004.90 | 1,088,004.90 | 1,258,009.80 |
| 03/01/27 | - | - | 141,494.40 | 20,707.50 | 162,201.90 | 162,201.90 | - |
| 09/01/27 | 934,000.00 | 1.500% | 141,494.40 | 20,707.50 | 162,201.90 | 1,096,201.90 | 1,258,403.80 |
| 03/01/28 | - | - | 134,489.40 | 19,306.50 | 153,795.90 | 153,795.90 | - |
| 09/01/28 | 951,000.00 | 1.560% | 134,489.40 | 19,306.50 | 153,795.90 | 1,104,795.90 | 1,258,591.80 |
| 03/01/29 | - | - | 127,071.60 | 17,880.00 | 144,951.60 | 144,951.60 | - |
| 09/01/29 | 968,000.00 | 1.500% | 127,071.60 | 17,880.00 | 144,951.60 | 1,112,951.60 | 1,257,903.20 |
| 03/01/30 | - | - | 119,811.60 | 16,428.00 | 136,239.60 | 136,239.60 | - |
| 09/01/30 | 986,000.00 | 1.600% | 119,811.60 | 16,428.00 | 136,239.60 | 1,122,239.60 | 1,258,479.20 |
| 03/01/31 | - | - | 111,923.60 | 14,949.00 | 126,872.60 | 126,872.60 | - |
| 09/01/31 | 1,005,000.00 | 1.870% | 111,923.60 | 14,949.00 | 126,872.60 | 1,131,872.60 | 1,258,745.20 |
| 03/01/32 | - | - | 102,526.85 | 13,441.50 | 115,968.35 | 115,968.35 | - |
| 09/01/32 | 1,026,000.00 | 2.020% | 102,526.85 | 13,441.50 | 115,968.35 | 1,141,968.35 | 1,257,936.70 |
| 03/01/33 | - | - | 92,164.25 | 11,902.50 | 104,066.75 | 104,066.75 | - |
| 09/01/33 | 1,050,000.00 | 2.120% | 92,164.25 | 11,902.50 | 104,066.75 | 1,154,066.75 | 1,258,133.50 |
| 03/01/34 | - | - | 81,034.25 | 10,327.50 | 91,361.75 | 91,361.75 | - |
| 09/01/34 | 1,076,000.00 | 2.200% | 81,034.25 | 10,327.50 | 91,361.75 | 1,167,361.75 | 1,258,723.50 |
| 03/01/35 | - | - | 69,198.25 | 8,713.50 | 77,911.75 | 77,911.75 | - |
| 09/01/35 | 1,102,000.00 | 2.280% | 69,198.25 | 8,713.50 | 77,911.75 | 1,179,911.75 | 1,257,823.50 |
| 03/01/36 | - | - | 56,635.45 | 7,060.50 | 63,695.95 | 63,695.95 | - |
| 09/01/36 | 1,131,000.00 | 2.340% | 56,635.45 | 7,060.50 | 63,695.95 | 1,194,695.95 | 1,258,391.90 |
| 03/01/37 | - | - | 43,402.75 | 5,364.00 | 48,766.75 | 48,766.75 | - |
| 09/01/37 | 1,161,000.00 | 2.380% | 43,402.75 | 5,364.00 | 48,766.75 | 1,209,766.75 | 1,258,533.50 |
| 03/01/38 | - | - | 29,586.85 | 3,622.50 | 33,209.35 | 33,209.35 | - |
| 09/01/38 | 1,192,000.00 | 2.430% | 29,586.85 | 3,622.50 | 33,209.35 | 1,225,209.35 | 1,258,418.70 |
| 03/01/39 | - | - | 15,104.05 | 1,834.50 | 16,938.55 | 16,938.55 | - |
| 09/01/39 | 1,223,000.00 | 2.470% | 15,104.05 | 1,834.50 | 16,938.55 | 1,239,938.55 | 1,256,877.10 |
| <u>19,100,000.00</u> | | | <u>4,291,381.10</u> | <u>622,848.67</u> | <u>4,914,229.77</u> | <u>24,014,229.77</u> | <u>24,014,229.77</u> |

(1) Interest during construction is calculated based on the timing of expected draws and the overall weighted average loan rate of 1.850%.

**RESOLUTION
OF THE
PROVIDENCE WATER SUPPLY BOARD**

A Resolution of the City of Providence Water Supply Board expressing the intention of the Board to reimburse expenditures from the proceeds of the Notes, Bonds, or Loans for certain Infrastructure Improvements and to provide an effective date.

The Hon. Jorge O. Elorza
Mayor

Ricky Caruolo
General Manager

WHEREAS, the City of Providence Water Supply Board (the Board) is an agency of the City of Providence, Rhode Island and owns and operates a Water Supply system (the System); and

WHEREAS, the Board desires to make certain improvements to the Board's distribution system and appurtenances thereto, including but not limited to the cleaning, relining, repair and replacement of water mains, transmission lines, service lines and valves (the "Project"); and

WHEREAS, it is the intent of the Board to borrow funds in an amount, not to exceed nineteen million, one hundred thousand dollars (\$19,100,000.00) for the Project.


NOW, THEREFORE, BE IT RESOLVED:


❖ This Resolution is an affirmative action of the Board towards the issuance of Bonds, Notes, or Loans through the RI Infrastructure Bank and/or other funding avenues. This resolution constitutes the Board's declaration of official intent pursuant to Treasury Regulation 1.150-2 to reimburse the Board's funds and accounts for certain infrastructure expenditures paid on or after the date which is sixty (60) days prior to the date of this resolution but prior to the issuance of the Bonds, Notes, or Loans.

❖ That the Board authorizes the General Manager to borrow through the Rhode Island Infrastructure Bank and/or any other funding avenues for the Project.

❖ This resolution shall take effect upon passage.

The above and foregoing was duly adopted and approved at a meeting of the City of Providence Water Supply Board as held on January 15, 2020 by vote of the members of the Providence Water Supply Board present.


Xaykham Khamsyvoravong, Chairman
Providence Water Supply Board


Carissa R. Richard, Secretary
Providence Water Supply Board

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PROVIDENCE WATER SUPPLY BOARD

(AN ENTERPRISE FUND OF THE CITY OF
PROVIDENCE, RHODE ISLAND)

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2019 AND 2018

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
CONTENTS

| | |
|---|-------|
| Independent Auditors' Report | 1-2 |
| Management's Discussion and Analysis | 3-7 |
| Financial Statements: | |
| Statements of Net Position | 8-9 |
| Statements of Revenues, Expenses and Changes in Net Position | 10 |
| Statements of Cash Flows | 11 |
| Notes to the Financial Statements | 12-31 |
| Required Supplementary Information: | |
| Schedule of Changes in the Net Pension Liability and Related Ratios | 32 |
| Schedule of Employer Contributions | 33 |
| Schedule of Investment Returns | 34 |
| Schedule of Changes in the Total OPEB Liability and Related Ratios | 35 |
| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 36-37 |

Independent Auditors' Report

To the Board of Directors of
Providence Water Supply Board
Providence, Rhode Island

Report on the Financial Statements

We have audited the accompanying financial statements of Providence Water Supply Board (Water Supply Board) of the City of Providence, Rhode Island, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water Supply Board as of June 30, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Water Supply Board are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of the City of Providence that are attributable to the transactions of the Water Supply Board. They do not purport to, and do not, present fairly the financial position of the City of Providence as of June 30, 2019 and 2018, the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the pension and OPEB schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2020, on our consideration of the Water Supply Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Water Supply Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Water Supply Board's internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

Cranston, Rhode Island
January 27, 2020

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018**

The management of the Providence Water Supply Board (the Water Supply Board) offers readers of our financial statements the following narrative overview and analysis of our financial activities for the years ended June 30, 2019 and 2018.

Financial Statements

Our financial statements are prepared using proprietary fund (enterprise fund) accounting that uses the same basis of accounting as private-sector business enterprises. Under this method of accounting an economic resources measurement focus and the accrual basis of accounting are used.

Revenue is recorded when earned and expenses are recorded when incurred. The financial statements include statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows. These statements are followed by notes to the financial statements.

- The statements of net position present information on the assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Water Supply Board is improving or deteriorating.
- The statements of revenues, expenses and changes in net position report the operating and nonoperating revenues and expenses of the Water Supply Board for the fiscal year with the difference - the net income or loss - being combined with any capital contributions to determine the change in net position for the fiscal year. That change combined with the previous year-end net position total reconciles to the net position at the end of the fiscal year.
- The statements of cash flows report cash and cash equivalents activity for the fiscal year resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The net result of these activities added to the beginning of the year cash balance reconciles to the cash and cash equivalents balance at the end of the fiscal year.

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018

Condensed Financial Information

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|---|-----------------------|-----------------------|-----------------------|
| Total current assets | \$ 48,323,882 | \$ 58,575,820 | \$ 54,554,469 |
| Total long-term assets | <u>441,096,391</u> | <u>406,430,789</u> | <u>391,547,959</u> |
| Total assets | <u>489,420,273</u> | <u>465,006,609</u> | <u>446,102,428</u> |
| Deferred outflows of resources | <u>3,396,558</u> | <u>3,418,884</u> | <u>4,739,191</u> |
| Total current liabilities | 14,062,833 | 13,098,064 | 11,953,738 |
| Total long-term liabilities | <u>189,514,439</u> | <u>176,556,035</u> | <u>170,282,008</u> |
| Total liabilities | <u>203,577,272</u> | <u>189,654,099</u> | <u>182,235,746</u> |
| Deferred inflows of resources | <u>3,562,081</u> | <u>3,256,637</u> | <u>786,585</u> |
| Net position: | | | |
| Net investment in capital assets | 319,818,541 | 294,002,639 | 273,631,269 |
| Restricted fund | 33,525,802 | 43,396,562 | 41,155,297 |
| Unrestricted fund | <u>(67,666,865)</u> | <u>(61,884,444)</u> | <u>(46,967,278)</u> |
| Total Net Position | <u>\$ 285,677,478</u> | <u>\$ 275,514,757</u> | <u>\$ 267,819,288</u> |
| Total operating revenue | \$ 72,330,415 | \$ 75,085,420 | \$ 71,778,075 |
| Total operating expenses | <u>49,998,732</u> | <u>46,380,902</u> | <u>45,438,116</u> |
| Depreciation | <u>9,429,564</u> | <u>9,696,365</u> | <u>10,327,272</u> |
| Total operating expenses including depreciation | <u>59,428,296</u> | <u>56,077,267</u> | <u>55,765,388</u> |
| Operating income | 12,902,119 | 19,008,153 | 16,012,687 |
| Nonoperating expense | <u>(3,655,366)</u> | <u>(1,943,854)</u> | <u>(2,622,675)</u> |
| Capital grants and contributions | <u>915,968</u> | <u>4,245,111</u> | <u>405,252</u> |
| Change in Net Position | <u>\$ 10,162,721</u> | <u>\$ 21,309,410</u> | <u>\$ 13,795,264</u> |

*The 2017 data above reflects the information that was included in financial statements issued in a prior period. It does not reflect the restatements relative to the GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018**

Financial Highlights

During the fiscal year 2019, the Water Supply Board had operating revenues that exceeded operating expenses by \$10.2 million. These are primarily due to rate relief to support the continued commitment to the replacement of aging infrastructure, careful management of operating costs, and unexpended revenues allocated for restricted funds. Total assets were \$489.4 million, up \$24.4 million from last year's total assets of \$465.0 million. Current assets, principally cash, decreased by \$10.3 million, and net plant increased by \$34.8 million.

The Water Supply Board's net position totaled \$285.7 million at June 30, 2019, an increase of \$10.2 million from June 30, 2018. The increase is the result of unexpended revenue allocated for restricted funds. Also, reflected in the change to our net position is net operating income of \$12.9 million, net non-operating expenses of \$3.7 million, and capital contributions of \$0.9 million.

The Water Supply Board's net position totaled \$275.5 million at June 30, 2018, an increase of \$21.3 million from June 30, 2017. The increase is the result of unexpended revenue allocated for restricted funds. Also reflected in the change to our net position is net operating income of \$19.0 million, net non-operating expenses of \$1.9 million, and capital contributions of \$4.2 million.

The Water Supply Board's total operating revenues were \$72.3 million for fiscal year 2019 which was a \$2.7 million or 3.67% decrease over the prior year. The primary reason for the decrease is the continued decline in consumption across all customer classes.

The Water Supply Board's total operating revenues were \$75.1 million for fiscal year 2018, which was \$3.3 million more than fiscal year 2017. Total operating expenses of the water system amounted to \$56.1 million, which was a slight increase over the prior year's amount of \$55.7 million. Fiscal year 2018 non-operating revenue consisted of interest income amounting to \$1.1 million and other revenue which is derived from a tax relief payment agreement between the Water Supply Board and the Town of Foster. The agreement called for the Town of Foster to reimburse the Water Supply Board a total of \$1.6 million plus interest over the next 10 years. Non-operating expense of \$2.9 million was principally interest expense on long-term debt. Capital grants and contributions in fiscal year 2018 amounted to \$4.2 million.

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018**

Capital Assets and Debt Administration

Capital Assets:

At June 30, 2019, the Water Supply Board had \$440.2 million invested in various capital assets, including land, buildings and improvements, transmission and distribution mains, reservoirs, services, hydrants and appurtenances, machinery and equipment, and construction work in progress. This amount represents a net increase in capital assets of \$34.8 million, or 8.6%, over the prior year.

At June 30, 2018, the Water Supply Board had \$405.4 million invested in various capital assets. This amount represented a net increase of \$15.0 million, or 3.8%, over the previous year.

Major project expenditures in fiscal year 2019 included (in millions):

| | | | |
|---|--|----|-------|
| * | Water Distribution Main Rehabilitation (6" – 12") | \$ | 14.27 |
| * | 102" & 78" Aqueducts – Inspection and Rehabilitation | \$ | 6.99 |
| * | Various Treatment Plant Improvements | \$ | 1.50 |
| * | Various Pumping Station Improvements | \$ | 1.42 |
| * | Lead Service Replacements | \$ | 0.86 |
| * | Various Distribution Improvements | \$ | 0.84 |
| * | Various Storage Tank Improvements | \$ | 0.83 |
| * | Various Inspections and Improvements to PW | \$ | 0.75 |
| * | Computer/IT Improvements | \$ | 0.67 |
| * | Asset Management System Upgrades | \$ | 0.60 |
| * | Full Scale Orthophosphate Integration | \$ | 0.20 |
| * | Renewable Energy Projects | \$ | 0.11 |
| * | Various Transmission Main Improvements (16' – 102") | \$ | 0.10 |
| * | Administrative Facility Improvements | \$ | 0.02 |

The Water Supply Board's fiscal year 2019 capital budget included project expenditures of \$25.34 million for infrastructure and capital projects. The major projects were: continuation of the water main replacements and upgrades, 102" and 78" aqueducts rehabilitation, replacement of lead services and aging fire hydrants, plant influent and aerator upgrades, and upgrades to aging pump stations. The majority of infrastructure projects are financed on a pay-as-you-go, cash basis from rate revenues. The major project – water main rehabilitation/replacement - was funded from bond proceeds issued through the Rhode Island Infrastructure Bank (RIIB) in fiscal year 2019. New major capital investments that will benefit ratepayers for many years are generally funded with long-term debt financing.

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018**

Private Side Lead Service Line Replacement Loan Program:

In February of 2017, The Rhode Island Public Utilities Commission (PUC) approved, as part of the application for new rates (PUC Docket 4618) \$250,000 of rate revenue per year be used to finance a 0% interest loan with a 3-year repayment schedule program to assist homeowners replace the private side lead service lines that carry water from the water mains in the street to the home. This program is to address the reduction of lead found in homes that could be harmful to the residents, especially children.

The program entered into its first loan in April of 2018 and through June 30, 2019, 190 loans had been executed in the amount of \$681,677.86. A 0% interest loan for \$1 million from the RIIB allowed Providence Water to capitalize these loans at an accelerated rate.

Debt:

At June 30, 2019, the Water Supply Board had \$120.4 million in bonds and notes outstanding versus \$111.4 million in the previous year. This represented an increase of \$8.9 million or 8.1%. Providence Water Supply Board sought and received approval from the RI Division of Public Utilities (the Division) to borrow \$14.7 million from the RI Infrastructure Bank to finance the replacement and rehabilitation of water mains in the distribution system. The new \$14.7 million was issued in June of 2019, and the necessary rates were approved by the PUC as a part of the new rates approved in February of 2017.

At June 30, 2018, the Water Supply Board had \$111.4 million in bonds and notes outstanding versus \$116.7 million in the previous year. This represented a decrease of \$5.3 million, or 4.58%. This is due to the retirement of previously issued debt.

Subsequent Events

In December 2, 2019, Providence Water Supply Board filed a request for an increase in rates with the RI Public Utilities Commission.

On December 13, 2019, Providence Water entered into a new tax treaty with the Town of Scituate which will lock in the amount of taxes that Providence Water will pay to the Town for the watershed land for the next 10 years.

Union Contract

The labor force of the Water Supply Board, with the exception of management, is covered by a union contract which is effective for the period of July 1, 2019 through June 30, 2022.

Contacting Providence Water's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of the Providence Water Supply Board's finances and to illustrate the Providence Water Supply Board's accountability for the monies it receives. If you have questions about this report or need additional financial information, please contact the Finance Department at the Providence Water Supply Board, 125 Dupont Drive, Providence, RI 02907.

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

EXHIBIT I

| | 2019 | 2018 |
|--|--------------|--------------|
| Assets: | | |
| Current unrestricted assets: | | |
| Cash and cash equivalents | \$ 1,398,434 | \$ 1,430,099 |
| Accounts receivable, net of allowance for uncollectible accounts of \$1,876,433 in 2019 and \$1,205,140 in 2018 | 6,361,146 | 6,546,218 |
| Accounts receivable - unbilled | 3,570,344 | 4,392,511 |
| Inventory | 429,749 | 412,931 |
| Other assets | 52,174 | 65,495 |
| Total current unrestricted assets | 11,811,847 | 12,847,254 |
| Current restricted assets: | | |
| Cash and cash equivalents | 35,698,462 | 45,374,638 |
| Accounts receivable | 672,942 | 217,794 |
| Notes receivable - short term | 140,631 | 136,134 |
| Total current restricted assets | 36,512,035 | 45,728,566 |
| Total current assets | 48,323,882 | 58,575,820 |
| Capital assets: | | |
| Land | 25,220,803 | 24,342,006 |
| Building and improvements | 123,990,544 | 123,451,054 |
| Improvements other than buildings | 412,532,325 | 361,185,960 |
| Machinery and equipment | 40,598,540 | 33,510,818 |
| Scituate Reservoir Project | 18,681,695 | 18,681,695 |
| Construction in progress | 66,933,822 | 82,567,540 |
| | 687,957,729 | 643,739,073 |
| Less accumulated depreciation and amortization | 247,778,320 | 238,348,756 |
| Total capital assets, net | 440,179,409 | 405,390,317 |
| Other noncurrent assets: | | |
| Notes receivable - long term | 916,982 | 1,040,472 |
| Deferred Outflows of Resources: | | |
| OPEB-related deferred outflows of resources | 903,277 | - |
| Pension-related deferred outflows of resources | 2,493,281 | 3,418,884 |
| Total deferred outflows of resources | 3,396,558 | 3,418,884 |
| Total assets and deferred outflows of resources | 492,816,831 | 468,425,493 |

The accompanying notes are an integral part of the financial statements

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|--|-----------------------|-----------------------|
| Liabilities: | | |
| Current: | | |
| Current portion of long-term debt | \$ 6,269,032 | \$ 6,077,425 |
| Due to City of Providence General Fund | 770,963 | 656,560 |
| Accounts payable | 1,369,261 | 1,330,981 |
| Accrued liabilities | 2,667,344 | 2,701,094 |
| | <u>11,076,600</u> | <u>10,766,060</u> |
| Amounts to be paid from current restricted assets: | | |
| Due to Water Resources Board | 215,859 | 334,492 |
| Accounts payable | 2,770,374 | 1,997,512 |
| | <u>2,986,233</u> | <u>2,332,004</u> |
| Total current liabilities | <u>14,062,833</u> | <u>13,098,064</u> |
| Noncurrent liabilities: | | |
| General revenue bonds | 114,091,836 | 105,310,253 |
| Net pension liability | 51,964,714 | 50,780,782 |
| Total OPEB liability | 23,457,889 | 20,465,000 |
| Total noncurrent liabilities | <u>189,514,439</u> | <u>176,556,035</u> |
| Total liabilities | <u>203,577,272</u> | <u>189,654,099</u> |
| Deferred Inflows of Resources: | | |
| OPEB-related deferred inflows of resources | 2,948,701 | 2,355,000 |
| Pension-related deferred inflows of resources | 613,380 | 901,637 |
| Total deferred inflows of resources | <u>3,562,081</u> | <u>3,256,637</u> |
| Net Position: | | |
| Net investment in capital assets | 319,818,541 | 294,002,639 |
| Restricted | 33,525,802 | 43,396,562 |
| Unrestricted | <u>(67,666,865)</u> | <u>(61,884,444)</u> |
| Total Net Position | <u>\$ 285,677,478</u> | <u>\$ 275,514,757</u> |

The accompanying notes are an integral part of the financial statements

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|--|-----------------------|-----------------------|
| Operating Revenues: | | |
| Charges for services: | | |
| Water sales: | | |
| General customers | \$ 51,288,398 | \$ 53,225,723 |
| Other local water suppliers | 15,852,358 | 16,146,509 |
| Fire protection services | 2,719,310 | 2,699,184 |
| Maintenance charges and other revenue | 2,470,349 | 3,014,004 |
| Total operating revenues | <u>72,330,415</u> | <u>75,085,420</u> |
| Operating Expenses: | | |
| Source of supply | 2,865,212 | 3,191,527 |
| Pumping operations | 859,524 | 792,204 |
| Water treatment | 8,615,608 | 7,792,596 |
| Transmission and distribution | 6,165,986 | 6,508,566 |
| Charge for services provided by other City departments | 839,167 | 839,167 |
| Customer accounts and service | 3,990,544 | 3,700,265 |
| Administrative and general | 19,075,957 | 16,145,222 |
| Depreciation | 9,429,564 | 9,696,365 |
| Property taxes - other local governments | 7,586,734 | 7,411,355 |
| Total operating expenses | <u>59,428,296</u> | <u>56,077,267</u> |
| Operating Income | <u>12,902,119</u> | <u>19,008,153</u> |
| Nonoperating Revenue (Expense): | | |
| Interest income | 505,659 | 1,052,158 |
| Interest expense and other | (3,059,841) | (2,996,012) |
| Loss on sale of asset | (1,101,184) | |
| Net nonoperating expense | <u>(3,655,366)</u> | <u>(1,943,854)</u> |
| Capital Grants and Contributions | <u>915,968</u> | <u>4,245,111</u> |
| Change in Net Position | 10,162,721 | 21,309,410 |
| Net Position - Beginning of Year | <u>275,514,757</u> | <u>254,205,347</u> |
| Net Position - End of Year | <u>\$ 285,677,478</u> | <u>\$ 275,514,757</u> |

The accompanying notes are an integral part of the financial statements

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Cash Flows from Operating Activities: | | |
| Receipts from customers | \$ 72,673,536 | \$ 73,429,595 |
| Payments to vendors | (21,733,004) | (23,749,054) |
| Payments to employees | (22,782,502) | (19,447,305) |
| Net cash provided by operating activities | <u>28,158,030</u> | <u>30,233,236</u> |
| Cash Flows from Capital and Related Financing Activities: | | |
| Acquisition and construction of capital assets | (45,319,840) | (24,721,196) |
| Interest and issuance costs paid on debt | (3,059,841) | (2,996,012) |
| Proceeds from bond issuance | 15,130,326 | |
| Principal payments on long-term debt | (6,157,136) | (5,352,407) |
| Proceeds from note receivable | 118,993 | 131,781 |
| Capital grants | 915,968 | 4,245,111 |
| Net cash used in capital and related financing activities | <u>(38,371,530)</u> | <u>(28,692,723)</u> |
| Cash Flows from Investing Activities: | | |
| Investment income | 505,659 | 1,052,158 |
| Net cash provided by investing activities | <u>505,659</u> | <u>1,052,158</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (9,707,841) | 2,592,671 |
| Cash and Cash Equivalents - Beginning of Year | 46,804,737 | 44,212,066 |
| Cash and Cash Equivalents - End of Year | <u>\$ 37,096,896</u> | <u>\$ 46,804,737</u> |
| Unrestricted Cash and Cash Equivalents | \$ 1,398,434 | \$ 1,430,099 |
| Restricted Cash and Cash Equivalents | <u>35,698,462</u> | <u>45,374,638</u> |
| | <u>\$ 37,096,896</u> | <u>\$ 46,804,737</u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | | |
| Operating income | \$ 12,902,119 | \$ 19,008,153 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 9,429,564 | 9,696,365 |
| Provision for doubtful accounts | (205,964) | 138,644 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | 758,055 | (1,763,087) |
| (Increase) decrease in inventories | (16,818) | 157,762 |
| (Increase) decrease in other assets | 13,321 | 48,221 |
| (Increase) decrease in deferred outflows of resources | 22,326 | 1,320,307 |
| Increase (decrease) in due to other funds | 114,403 | (86,614) |
| Increase (decrease) in accounts payable and accrued expenses | 658,759 | 545,136 |
| Increase (decrease) net pension liability | 1,183,932 | 478,238 |
| Increase (decrease) net OPEB liability | 2,992,889 | (1,779,941) |
| Increase (decrease) in deferred inflows of resources | <u>305,444</u> | <u>2,470,052</u> |
| Net Cash Provided by Operating Activities | <u>\$ 28,158,030</u> | <u>\$ 30,233,236</u> |

The accompanying notes are an integral part of the financial statements

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS**

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Providence Water Supply Board, an enterprise fund of the City of Providence, (the Water Supply Board) was created in 1940 by Chapter 832 of the Public Laws of the State of Rhode Island. Membership of the Water Supply Board is comprised of four persons appointed by the Mayor, who serve for four-year staggered terms and two City Council members elected by the City Council who serve during their four-year City Council term. The Finance Director of the City of Providence also serves as an ex-officio Water Supply Board member.

The Water Supply Board provides water supply services through metered sales in Providence and parts of the surrounding communities of North Providence, Johnston and Cranston. The Water Supply Board also sells water to other local water supply systems on a wholesale basis. The Water Supply Board's source of water supply is the Scituate Reservoir, located in the Town of Scituate, Rhode Island, and five tributary reservoirs.

The financial statements of the Providence Water Supply Board are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only the business-type activities of the City of Providence that are attributable to the transactions of the Providence Water Supply Board. They do not purport to, and do not, present fairly the financial position of the City of Providence as of June 30, 2019, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

B. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Water Supply Board is considered an enterprise fund of the City of Providence (the City). The operations of the Water Supply Board are accounted for with a separate set of self-balancing accounts organized on a Proprietary Fund type (Enterprise Fund) basis.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or change in net position is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Water Supply Board utilizes the accrual basis of accounting, under which revenues are recognized when earned and expenses are recognized when incurred regardless of the timing of the related cash flows.

Regulations and Operations

The Water Supply Board is subject, as to rates and other matters, to the regulatory authority of the State of Rhode Island Public Utilities Commission (PUC).

Cash Equivalents

The Water Supply Board considers all highly liquid instruments with an original maturity of three months or less, when purchased, to be cash equivalents.

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS**

Investments

The Water Supply Board accounts for investments at fair values, which are established by quoted market prices in active markets that are accessible at the measurement date for identical, unrestricted assets. Fair value is defined as the price that two parties are willing to pay to acquire an asset or settle a liability in an orderly transaction in the market place.

Inventory

Inventory, consisting of materials and supplies, is valued at the lower of average cost or market using the first-in, first-out method.

Capital Assets, Depreciation and Amortization

Capital assets owned by the Water Supply Board are stated at cost and are defined as assets with an initial cost of more than \$3,000 and an estimated useful life in excess of 1 year. Depreciation and amortization is provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

| | |
|--|------------|
| Building, source of supply structures and improvements | 5-75 years |
| Improvements other than buildings | 3-75 years |
| Equipment | 3-50 years |

Depreciation expense is not reflected for construction in progress until such time as it is placed in service. Assets under capital leases are amortized under the Water Supply Board's normal depreciation policies for similar assets.

Restricted Funds for Construction of Assets

Restricted funds for construction of assets represent unexpended revenue bond proceeds obtained specifically for construction of water facilities, as well as revenues restricted for capital improvements by the PUC. These funds are included in restricted assets.

Capital Contributions

Capital contributions consist of property and equipment paid for by customers for water installations. Once the installation is complete, the property and equipment transfers to the Water Supply Board at fair value.

Impact Fees

The impact fees assessment was established in 1996 when the Water Supply Board acquired the water distribution system in the City of Cranston. As part of the agreement for the acquisition, the Water Supply Board assumed all operation obligation, benefits and assets, and debt service related to the water distribution system, and created an impact fee agreement with the City of Cranston. In accordance with the City of Cranston ordinance, impact fee for the water system improvement must be set aside by the City of Cranston and paid to the Water Supply Board or deducted from the debt services the Water Supply Board pays to the City of Cranston.

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS**

The impact fee is assessed by the City of Cranston based on the agreement with the Water Supply Board. If new water systems facilities are required to serve areas where no water system presently exists, the Water Supply Board will collect a subdivision processing fee, and the City of Cranston will collect a water impact fee for the benefit of the Water Supply Board as follows: 1) residential \$1,352 per unit; and 2) industrial and commercial \$6,003 per acre. The Water Supply Board in turn agreed to use the said impact fee solely for the purpose of construction of new water system facilities required to serve areas where no water system presently exists. In 2019, the \$87,087 in fees that had been collected was recognized by the Water Supply Board as revenue. In 2018, the \$81,878 in fees that had been collected was recognized by the Water Supply Board as revenue.

Revenues, Operating Revenues and Expenses

Revenues include amounts billed and unbilled to all customers, including those customers outside the City of Providence. All billed charges are based on rates approved by the PUC. Revenues for unbilled amounts to general customers are estimated based on billing amounts subsequent to year end. The Water Supply Board distinguishes operating revenues and expenses from nonoperating. Operating revenues result from charges to customers for water and related services. Operating expenses include the cost of operations, maintenance, sales and service, administrative expenses and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating or capital contributions.

Concentration of Credit Risk

The Water Supply Board's financial instruments that are exposed to concentrations of credit risk consist primarily of accounts receivable. Exposure to losses on receivables is principally dependent on each customer's financial condition. Concentration of credit risk with respect to receivables is limited due to the large number of customers. The Water Supply Board monitors its exposure for credit losses and maintains allowances for anticipated losses.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position can report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period which will not be recognized as an outflow of resources (expense) until that later date. At June 30, 2019 and 2018, the Water Supply Board reports deferred outflows related to pension and OPEB in the statements of net position. A deferred outflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension and OPEB expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension and OPEB plans (active employees and inactive employees).

In addition to liabilities, the statement of net position can report deferred inflows of resources. Deferred inflows of resources represent the acquisition of net position that applies to a future period and which will not be recognized as an inflow of resources (revenue) until a later date. At June 30, 2019 and 2018, the Water Supply Board reports deferred inflows related to pension and OPEB in the statements of net position. A deferred inflow of resources related to pension and OPEB results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension and OPEB expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension and OPEB plans (active employees and inactive employees).

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS**

Compensated Absences

Employees accumulate sick leave hours for subsequent use or for payment upon retirement. Sick leave and vacation may be carried forward into the following calendar year, but not to exceed 135 days and 30 days, respectively.

Vested sick leave and accumulated vacation leave are recorded as expenses and liabilities as the benefits accrue to employees.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. RESTRICTED ASSETS

The State of Rhode Island enacted the Public Drinking Water Protection Act of 1987 (the Act) that empowers suppliers of public drinking water to levy a surcharge (the surcharge) of one cent (\$0.01) per hundred gallons of water for all customers. The surcharge has been amended several times since 1987. The last increase was on July 1, 2002, when the surcharge increased to \$0.0292 per hundred gallons of water for all customers. Of those collected funds, the Water Supply Board will retain 36.1% of the surcharge in its Water Quality Protection Fund, remit 57.0% to the State Water Resources Board and retain 6.9% for general operations. The funds collected in the Water Quality Protection Fund are to be expended in the following manner:

- at a minimum, 55% of the funds are to be spent for the acquisition of land or land rights or physical improvements to acquired land to protect the quality of the raw water of the water supply system;
- 35% may be used to acquire a fee simple interest or a conservation restriction that directly protects the quality and safety of the public drinking water supply; and
- 0% may be used by the supplier for any purpose relating to its operations.

The restricted investments are pooled with the cash and cash equivalents and investments of other funds maintained by the City of Providence. The earnings from investments are allocated in proportion to each fund's balance.

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS

3. CASH

The following is a summary of cash and investments as of June 30, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|--------------------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 1,398,434 | \$ 1,430,099 |
| Restricted cash and cash equivalents | <u>35,698,462</u> | <u>45,374,638</u> |
| | <u>\$ 37,096,896</u> | <u>\$ 46,804,737</u> |

Responsibility for custodial credit risk of deposits, investment risk, interest rate risk and concentration of investments rests with the City. However, the deposits for the Water Supply Board are supported by collateralization agreements with its main banking institutions. These agreements collateralize the deposits at 102%. Of the cash and cash equivalent balances at June 30, 2019 of \$37,096,896, \$250,000 is covered by Federal Deposit Insurance Corporation (FDIC) insurance and \$1,148,434 of the balance is covered by the collateral agreements. Of the cash and cash equivalent balances at June 30, 2018 of \$46,804,737, \$250,000 is covered by FDIC insurance and \$1,180,099 of the balance is covered by the collateral agreements.

4. CAPITAL ASSETS

The following is a summary of the activity in capital assets as of June 30, 2019:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Disposals/ Transfers</u> | <u>Ending Balance</u> |
|---|------------------------------|-----------------------|---------------------------------|---------------------------|
| Business-type activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 24,342,006 | \$ 878,797 | \$ | \$ 25,220,803 |
| Scituate Reservoir Project | 18,681,695 | | | 18,681,695 |
| Construction in progress | <u>82,567,540</u> | <u>50,630,780</u> | <u>66,264,498</u> | <u>66,933,822</u> |
| Total capital assets not being depreciated | <u>125,591,241</u> | <u>51,509,577</u> | <u>66,264,498</u> | <u>110,836,320</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 123,451,054 | 1,621,935 | 1,082,445 | 123,990,544 |
| Sewer and infrastructure | 361,185,960 | 51,346,365 | | 412,532,325 |
| Equipment | <u>33,510,818</u> | <u>7,106,461</u> | <u>18,739</u> | <u>40,598,540</u> |
| Total capital assets being depreciated | <u>518,147,832</u> | <u>60,074,761</u> | <u>1,101,184</u> | <u>577,121,409</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 76,283,082 | 3,578,289 | | 79,861,371 |
| Sewer and infrastructure | 132,060,079 | 4,793,305 | | 136,853,384 |
| Equipment | <u>30,005,595</u> | <u>1,057,970</u> | | <u>31,063,565</u> |
| Total accumulated depreciation | <u>238,348,756</u> | <u>9,429,564</u> | <u>-</u> | <u>247,778,320</u> |
| Total capital assets being depreciated, net | <u>279,799,076</u> | <u>50,645,197</u> | <u>1,101,184</u> | <u>329,343,089</u> |
| Capital Assets, Net | <u>\$ 405,390,317</u> | <u>\$ 102,154,774</u> | <u>\$ 67,365,682</u> | <u>\$ 440,179,409</u> |

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS

The following is a summary of the activity in capital assets as of June 30, 2018:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Disposals/ Transfers</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------|---------------------------------|---------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 24,113,598 | \$ 228,408 | \$ | \$ 24,342,006 |
| Scituate Reservoir Project | 18,681,695 | | | 18,681,695 |
| Construction in progress | 85,556,950 | 48,676,675 | 51,666,085 | 82,567,540 |
| Total capital assets not being depreciated | 128,352,243 | 48,905,083 | 51,666,085 | 125,591,241 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 117,974,309 | 5,476,745 | | 123,451,054 |
| Sewer and infrastructure | 339,975,131 | 21,210,829 | | 361,185,960 |
| Equipment | 32,722,062 | 788,756 | | 33,510,818 |
| Total capital assets being depreciated | 490,671,502 | 27,476,330 | - | 518,147,832 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 71,950,734 | 4,332,348 | | 76,283,082 |
| Sewer and infrastructure | 127,386,457 | 4,673,622 | | 132,060,079 |
| Equipment | 29,315,200 | 690,395 | | 30,005,595 |
| Total accumulated depreciation | 228,652,391 | 9,696,365 | - | 238,348,756 |
| Total capital assets being depreciated, net | 262,019,111 | 17,779,965 | - | 279,799,076 |
| Capital Assets, Net | \$ 390,371,354 | \$ 66,685,048 | \$ 51,666,085 | \$ 405,390,317 |

5. LONG-TERM DEBT

The following is the long-term debt activity as of June 30, 2019:

| | <u>2019</u> | | | | |
|-----------------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
| Bonds payable: | | | | | |
| Revenue bonds | \$ 111,387,678 | \$ 15,130,326 | \$ 6,157,136 | \$ 120,360,868 | \$ 6,269,032 |
| Net pension liability | 50,780,782 | 1,183,932 | | 51,964,714 | |
| Total OPEB liability | 20,465,000 | 2,992,889 | | 23,457,889 | |
| Long-Term Liabilities | \$ 182,633,460 | \$ 19,307,147 | \$ 6,157,136 | \$ 195,783,471 | \$ 6,269,032 |

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS

The following is the long-term debt activity as of June 30, 2018:

| | 2018 | | | | Due Within One Year |
|-----------------------|-----------------------|-------------------|---------------------|-----------------------|------------------------|
| | Beginning Balance | Additions | Reductions | Ending Balance | |
| Bonds payable: | | | | | |
| Revenue bonds | \$ 116,740,085 | \$ | 5,352,407 | \$ 111,387,678 | \$ 6,077,425 |
| Net pension liability | 50,302,544 | 478,238 | | 50,780,782 | |
| Total OPEB liability | 22,244,941 | | 1,779,941 | 20,465,000 | |
| Long-Term Liabilities | <u>\$ 189,287,570</u> | <u>\$ 478,238</u> | <u>\$ 7,132,348</u> | <u>\$ 182,633,460</u> | <u>\$ 6,077,425</u> |

The following is a summary of bonds and notes outstanding at June 30, 2019 and 2018:

| Description | Amount of Interest Rate (%) | Outstanding June 30, 2019 | Outstanding June 30, 2018 |
|--|-----------------------------------|------------------------------|------------------------------|
| Safe Drinking Water Bonds (CWFA FY2002) | 3.61% | \$ 485,996 | \$ 637,250 |
| Scituate Reservoir Project (PPBA FY 2011) | 5.40% | | 76,853 |
| Safe Drinking Water Bonds (CWFA FY2008) | 2.85% | 21,995,000 | 23,613,000 |
| Safe Drinking Water Bonds (CWFA FY2010) | .0410% to 3.14% | 6,237,250 | 6,655,250 |
| Safe Clean Water Bonds (CWFA FY2012) | .072% to 3.26% | 2,228,000 | 2,361,000 |
| Safe Clean Water Bonds (CWFA FY2013) | .019% - 2.53% | 3,296,000 | 3,480,000 |
| Safe Drinking Water Bonds (CWFA FY2013) | .022% - 2.63% | 20,785,000 | 21,855,000 |
| Safe Drinking Water Bonds (CWFA FY2013) | .022% - 3.01% | 6,656,000 | 6,997,000 |
| Safe Drinking Water Bonds (CWFA FY2015) | .022% - 3.01% | 27,373,000 | 28,693,000 |
| Safe Drinking Water Bonds (CWFA FY2017) | .022% to 1.95% | 15,560,095 | 16,271,095 |
| Safe Drinking Water Bonds (RIIB- FY2018) | 0.00% | 350,615 | |
| Safe Drinking Water Bonds (CWFA FY2019) | .022% to 1.95% | 14,700,000 | |
| East Smithfield Water District DWSRF Bonds Series 2009A (RIIB- FY2009 Bond) | 3.51% | 135,172 | 155,909 |
| East Smithfield Water District DWSRF Loan Series 2009A (RIIB- FY2009 Loan) | 3.00% | 110,000 | 120,000 |
| East Smithfield Water District DWSRF Bond Series 2014A (RIIB- FY2014 Bond) | 1.30% - 3.43% | 448,740 | 472,321 |
| Total | | <u>\$ 120,360,868</u> | <u>\$ 111,387,678</u> |

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS

Scheduled principal maturities at June 30, 2019 of long-term debt are as follows:

| Fiscal Year | Principal | ARRA / SRF Principal Forgiveness | Interest and Fees | Total |
|--------------------|-----------------------|---|------------------------------|-----------------------|
| 2020 | \$ 6,269,032 | \$ (333,541) | \$ 3,007,334 | \$ 8,942,825 |
| 2021 | 7,184,262 | (341,025) | 3,018,265 | 9,861,502 |
| 2022 | 7,176,224 | (348,269) | 2,864,970 | 9,692,925 |
| 2023 | 7,024,989 | (356,560) | 2,701,330 | 9,369,759 |
| 2024 | 7,194,757 | (365,004) | 2,530,072 | 9,359,825 |
| 2025-2029 | 38,665,982 | (1,947,633) | 9,031,953 | 45,750,303 |
| 2030-2034 | 32,568,527 | (1,766,254) | 4,272,905 | 35,075,179 |
| 2035-2039 | 13,363,095 | (503,950) | 729,676 | 13,588,821 |
| 2040-2044 | 914,000 | | 13,344 | 927,344 |
| Total | \$ <u>120,360,868</u> | \$ <u>(5,962,235)</u> | \$ <u>28,169,849</u> | \$ <u>142,568,482</u> |

6. TRANSACTIONS WITH CITY OF PROVIDENCE, RHODE ISLAND

The City of Providence performs various services for the Water Supply Board including certain accounting, personnel and cash management services and working capital support. The total billing to the Water Supply Board for services performed amounted to \$839,167 for each of the years ended June 30, 2019 and 2018. This amount is established by the City, approved by the Water Supply Board and ultimately approved by the PUC. The Water Supply Board also provides services to various City funds and departments, the charges for which have been included as revenue in the accompanying financial statements. Included within the due to City of Providence General Fund balance on the statements of net position are the related balances due for the services described above. The balance also includes payments for pension and post-employment benefits. The total balance due to the City of Providence General Fund at June 30, 2019 and 2018 totaled \$770,963 and \$656,560, respectively.

7. LINE OF CREDIT

The Water Supply Board opened a line of credit with Century Bank of \$5,000,000 in 2013. This line of credit is used for infrastructure replacement and renewed annually per the agreement terms. The balance as of June 30, 2019 and 2018 was \$-0-.

8. COMMITMENTS AND CONTINGENCIES

Risk Management

The Water Supply Board has a complete comprehensive insurance program protecting all facilities, employees and liability claims.

The Water Supply Board is subject to various claims and litigation that arise in the ordinary course of its operations. Legal counsel and management are of the opinion that the Water Supply Board's liabilities in such cases, if decided adversely to the Water Supply Board, would not materially affect the financial statements.

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS**

Union Contract

The labor force of the Water Supply Board, with the exception of management, is covered by a union contract, which is effective for the period July 1, 2018 to June 30, 2022.

Lead Service Replacement Program

The Water Supply Board is committed to reducing lead at our customers' taps. The Water Supply Board is striving to meet the Environmental Protection Agency (EPA) goal of 0 parts per million (ppm) of lead. In order to achieve this goal, the Water Supply Board has implemented a four-pronged approach.

- Water Main Rehabilitation
- Distribution Water Main Flushing
- Corrosion Control
- Public Education and Outreach

Water Main Rehabilitation

The Water Supply Board operates an aging distribution system, composed mainly of unlined cast iron pipes. The Water Supply Board is committed to renew and/or replace much of the buried infrastructure. Water main rehabilitation improves water quality, reduces pipe breaks and the resulting loss of service, curtails leakage, and improves hydraulic capacity as needed for residential, commercial, and industrial users and fire protection. The Water Supply Board's Water Main Replacement/Rehabilitation Program (WMR) is now targeting areas of high iron and lead corrosion as indicated by LCR compliance sites and additional water quality monitoring within the distribution system. In FY 2019, the Water Supply Board rehabilitated 10.0 miles at a cost of approximately \$14.3 million.

During FY 2019, the Water Supply Board replaced 481 public side lead services at a cost of \$857,061. Since its inception of the reporting of the IFR program and the public lead services replacement program to the RIPUC (July 1, 1996), the Water Supply Board has replaced 18,668 lead services to the end of fiscal year 2019 (June 30, 2019) at cost of \$60,097,833. In addition to replacing the public side lead services, the Water Supply Board has implemented a no interest, three-year loan program to encourage our customers to replace their (private) side of the lead service. The Water Supply Board has \$250,000 per year allocated in rates to facilitate these loans. The Water Supply Board also has a \$1 million loan with the Clean Water Finance Agency.

Corrosion Control

The Water Supply Board is evaluating corrosion control treatment techniques. The Water Supply Board is working with a panel of nationally recognized corrosion control experts to optimize treatment. As part of this effort, the Water Supply Board implemented a full-scale pilot of orthophosphate treatment in the Fruit Hill section of our distribution system. If the pilot is successful, the Water Supply Board will implement orthophosphate system wide.

Flushing Program

Beginning in 2013, the Water Supply Board initiated a unidirectional flushing (UDF) program to improve water quality through removal of accumulations from the distribution system. In FY 2019, the Water Supply Board flushed approximately 82 miles of main. Because of the Water Supply Board's aging distribution system, some of the assets (valves and hydrants) that are utilized for flushing need to be repaired or replaced. In addition to the water quality benefits, the flushing program has the secondary benefit of being a valve exercise program.

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS

Public Education and Outreach

Utilizing social media, our website and direct mailings, the Water Supply Board provides educational material to our customers on the hazards of lead in water and the steps they can take to minimize lead at their tap. In addition, the Water Supply Board offers free lead testing for customers within our retail area.

9. DEFINED BENEFIT PENSION PLANS

Substantially all employees of the Water Supply Board participate in the Employees' Retirement System of the City of Providence (ERS or the Plan), a defined-benefit, single-employer plan. Water Supply Board employees participating in the Plan are eligible to retire at age 55 if hired prior to July 1, 2004, at age 60 if hired between July 1, 2004 and June 30, 2009, at age 62 with 10 years of service if hired on or after July 1, 2009 or at any age after 25 years of service if hired prior to July 1, 1995, or at any age after 30 years of service if hired on or after July 1, 1995. The total retirement allowance is equal to an annuity, which is the actuarial equivalent of accumulated contributions at the time of retirement, plus a pension, which when added together either: 1) equals 1/40 of final compensation for each year of total service up to 20 years and 1/50 of final compensation for each year of service in excess of 20 years if hired prior to July 1, 1996; or 2) equals 1/50 of final compensation for each year of total service credited if hired on or after July 1, 1996. These benefit provisions and all other requirements are established by City ordinance.

ERS is governed by an Employee Retirement Board provided by the Providence Home Rule Charter. The ERS consists of elected officials, management and employee representation and provides for establishing rules and regulations and is responsible for the administration and operation of the City employee retirement system. The Board has the discretion and authority to interpret the Plan and to determine the eligibility and benefits of participants and beneficiaries pursuant to the provisions of the Plan. On all such matters, the decision of a majority of the then members of the Board shall govern and be binding upon the employer, participants and beneficiaries.

Membership of the ERS plan for the Water Supply Board consisted of the following at June 30, 2018, the date of the latest actuarial valuation:

| | |
|---|-------------------|
| Inactive plan members or beneficiaries currently receiving benefits | 167 |
| Inactive employees entitled to but not yet receiving benefits | 27 |
| Active employees | <u>236</u> |
| Total | <u><u>430</u></u> |

The total pension liability was determined by an actuarial valuation as of June 30, 2018 and rolled forward to June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 3.50% |
| Salary increases | 3.50% per year, before reflecting increases due to longevity |
| Investment rate of return | 8.00%, net of pension plan investment expense, including inflation |

For the year ended June 30, 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 4.50%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS

The Plan's investment policy in regard to the allocation of invested assets is established and may be amended by the City. It is the policy of the City to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

The long-term expected rate of return on Plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target allocation as of June 30, 2019 are summarized as follows:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|--|--------------------------|---|
| Domestic equity | 45.25 % | 6.16 % |
| International developed markets equity | 12.75 | 6.69 |
| Core fixed income | 26.00 | 1.89 |
| Hedge fund, GTAA, Risk parity | 16.00 | 3.68 |
| | <u>100.00 %</u> | |

Contributions

Class A members and police officers are required to contribute 8% of their salary to the Plan. Class B members, other than police officers, are required to contribute 9.5% of their salary to the Plan. Water Supply Board employees are Class A members. The Mayor and City Council contribute to the Plan at a rate of \$350 per year. Additionally, the City shall contribute from time to time amounts sufficient with the contributions of elected officials to provide the special pensions granted to them. The Water Supply Board's contributions to the ERS for the year ended June 30, 2019 was \$4,180,000.

Investment Policy

The City policy for pension investments is under the oversight of the Board of Investment Commissioners (the Board). The Board contracts with an investment advisory firm and approves any new investment vehicles presented by the consultant. The Board follows all applicable state statutes and Section 17-189 of the City Ordinance, which states, "The Board of Investment Commissioners is authorized and empowered to execute the disposition and investment of the funds which are within its control in any securities and investments as would be acquired by prudent persons of discretion and intelligence in these matters, who are seeking a reasonable income and the preservation of their capital."

Net Pension Liability

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS

The components of the net pension liability of the Retirement System for the Water Supply Board were as follows:

| | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
|--|-----------------------------|-----------------------------|
| Total pension liability | \$ 70,014,956 | \$ 68,687,560 |
| Plan fiduciary net position | <u>18,050,242</u> | <u>17,906,778</u> |
| Net Pension Liability | \$ <u><u>51,964,714</u></u> | \$ <u><u>50,780,782</u></u> |
| Plan fiduciary net position as a percentage of the total pension liability | 25.78% | 26.07% |

Changes in the Net Pension Liability for the Water Supply Board

| | <u>Increase (Decrease)</u> | | |
|--|------------------------------------|--|--------------------------------------|
| | <u>Total Pension Liability (a)</u> | <u>Plan Fiduciary Net Position (b)</u> | <u>Net Pension Liability (a)-(b)</u> |
| Balances as of July 1, 2018 | \$ <u>68,687,560</u> | \$ <u>17,906,778</u> | \$ <u>50,780,782</u> |
| Changes for the year: | | | |
| Service cost | 979,926 | | 979,926 |
| Interest on total pension liability | 5,396,418 | | 5,396,418 |
| Differences between expected and actual experience | 107,440 | | 107,440 |
| Employer contributions | | 4,180,000 | (4,180,000) |
| Member contributions | | 634,544 | (634,544) |
| Net investment income | | 764,455 | (764,455) |
| Benefit payments, including refund to employee contributions | (5,156,388) | (5,426,927) | 270,539 |
| Administrative expenses | | (8,608) | 8,608 |
| Net changes | <u>1,327,396</u> | <u>143,464</u> | <u>1,183,932</u> |
| Balances as of June 30, 2019 | \$ <u><u>70,014,956</u></u> | \$ <u><u>18,050,242</u></u> | \$ <u><u>51,964,714</u></u> |

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS

| | Increase (Decrease) | | |
|--|-----------------------------------|---------------------------------------|-------------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a)-(b) |
| Balances as of July 1, 2017 | \$ 67,816,389 | \$ 17,513,845 | \$ 50,302,544 |
| Changes for the year: | | | |
| Service cost | 980,977 | | 980,977 |
| Interest on total pension liability | 5,258,402 | | 5,258,402 |
| Differences between expected and actual experience | 288,353 | | 288,353 |
| Change from inputs in proportionate share | (478,117) | (54,698) | (423,419) |
| Employer contributions | | 3,828,000 | (3,828,000) |
| Member contributions | | 610,831 | (610,831) |
| Net investment income | | 1,198,417 | (1,198,417) |
| Benefit payments, including refund to employee contributions | (5,178,444) | (5,178,444) | - |
| Administrative expenses | | (11,173) | 11,173 |
| Net changes | 871,171 | 392,933 | 478,238 |
| Balances as of June 30, 2018 | \$ 68,687,560 | \$ 17,906,778 | \$ 50,780,782 |

Additional information as of the latest actuarial valuation follows:

| | |
|-------------------------------|---|
| Valuation Date | July 1, 2018 |
| Actuarial cost method | Entry age normal cost method |
| Amortization cost method | Level dollar for the 1995 deferral liability and increasing 3.5% per year for the remaining unfunded liability. |
| Remaining amortization period | Market value of assets as represented by the City less unrecognized returns in each of the last five years plus the discounted contribution paid by the city in the following year. Unrecognized return is equal to the difference between the actual market return and the expected market return and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value. |
| Actuarial assumptions: | |
| Investment rate of return | 8.00%, net of pension plan investment and administrative expenses, including inflation. |
| Inflation rate | 3.50% |
| Projected salary increases | 3.50% per year before reflecting increases due to longevity compensation |

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS**

Cost of living adjustments

COLAs commence on January 1, 2023, except for participants identified by the City who opted out of the Consent Judgements agreed to by the City. For these participants, COLAs will commence on January 1, 2036, when the Plan was projected to be greater than 70% funded with the prior valuation. Any Class B retired participant whose total benefit is greater than the base of compensation of a current employee holding the same rank that the retiree held at the time of retirement will not receive a COLA in any year until this is no longer true. We have assumed that Class B average compensation for all ranks will increase by 3.5% per year. Future COLAs will not exceed 3% per year.

Mortality Rates:

Healthy: RP-2006 Employee and Healthy Annuitant Mortality Tables projected generationally with Scale BB2D, set forward 1-year post-retirement for Class A employees and the RP-2006 Blue Collar Employee and Healthy Annuitant Mortality Tables projected generationally with Scale BB2D, set forward 1-year post-retirement for Class B employees.
Disabled Retiree: RP-2006 Blue Collar Healthy Annuitant Mortality Table projected generationally with Scale BB2D, set forward three years.

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2019 and 2018 was 8.00%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the City of Providence's contributions will be made at the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate.

The following presents the net pension liability of the Retirement System, calculated using the discount rate of 8.00%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.00%) or 1 percentage point higher (9.00%) than the current rate at June 30, 2019:

| | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
|-----------------------|------------------------|--|------------------------|
| Net Pension Liability | \$ 59,785,158 | \$ 51,964,714 | \$ 45,420,426 |

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS

The following presents the net pension liability of the Retirement System, calculated using the discount rate of 8.00%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.00%) or 1 percentage point higher (9.00%) than the current rate at June 30, 2018:

| | <u>1% Decrease (7.00%)</u> | <u>Current Discount Rate (8.00%)</u> | <u>1% Increase (9.00%)</u> |
|-----------------------|--------------------------------|--|--------------------------------|
| Net Pension Liability | \$ 58,406,765 | \$ 50,780,782 | \$ 44,397,801 |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended June 30, 2019 and 2018, the Water Supply Board recognized pension expense of \$6,001,525 and \$5,741,597, respectively.

At June 30, 2019, the Water Supply Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 491,266 | \$ 43,434 |
| Changes of assumptions | 604,887 | |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 755,911 | 569,946 |
| Net difference between projected and actual earning on pension plan investments | 641,217 | |
| | <u>\$ 2,493,281</u> | <u>\$ 613,380</u> |

At June 30, 2018, the Water Supply Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 592,546 | \$ 87,128 |
| Changes of assumptions | 1,211,752 | |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 1,208,421 | 814,509 |
| Net difference between projected and actual earning on pension plan investments | 406,165 | |
| | <u>\$ 3,418,884</u> | <u>\$ 901,637</u> |

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS**

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:

| | | |
|------|----|-------------------------|
| 2020 | \$ | 1,380,127 |
| 2021 | | 77,833 |
| 2022 | | 216,069 |
| 2023 | | <u>205,872</u> |
| | \$ | <u><u>1,879,901</u></u> |

Payable to the Plan

At June 30, 2019, the Water Supply Board had made full payment of the required pension contribution for the year ended June 30, 2019.

10. POST EMPLOYMENT BENEFITS

Plan Description

The Water Supply Board's Post-Employment Medical Benefit Plan is a single-employer defined benefit postretirement health insurance program administered by the City. The City provides for a portion of the lifetime health care benefits to substantially all retired employees and their spouses. Health care benefits are provided through the City's self-insured health insurance program covering both active and retired employees. The Plan does not issue a separate financial report. These benefits are provided for and amended under various provisions of Rhode Island General Law, City Ordinances and the terms of collective bargaining agreements.

OPEB Funding Policy

The contribution requirements of plan members and the City are established and may be amended through provisions of Rhode Island General Law, City Ordinances and through collective bargaining. The required contribution is based on pay as you go financing requirements. The Plan can cover 100% of the costs of the benefit; however, retirees and their spouses are potentially required to fund a portion of the Plan costs depending upon the class an employee has been assigned and their date of hire. Current employee co-share for the retiree health insurance benefit requires a co-share of .01 of final average salary with a maximum limit of \$400.

The following is a current census of the Water Supply Board participants as of July 01, 2018:

| | |
|----------------|-------------------|
| Active members | 205 |
| Retirees | <u>128</u> |
| Total | <u><u>333</u></u> |

Total OPEB Liability

For the years ended June 30, 2019 and 2018, the Water Supply Board recognized OPEB liability of \$23,457,889 and \$20,465,000, respectively.

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS**

Actuarial Assumptions and Other Inputs

The total OPEB liability at June 30, 2019 was measured by an actuarial valuation as of June 30, 2018 using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

| | |
|-------------------------|---|
| Inflation | 3.50% |
| Salary increases | 3.50% per year before reflecting longevity. Longevity compensation varies from 3.0% to 11.0% based on years of service, date of hire and Class |
| Health care trend rates | <p>Non-Medicare medical: 7.0% decreasing by 0.25% for 10 years to an ultimate level of 4.5% per year</p> <p>Medicare medical: 6.0% decreasing by 0.25% for 6 years to an ultimate level of 4.5% per year</p> <p>Prescription drug: 9.0% decreasing by 0.25% for 18 years to an ultimate level of 4.5% per year</p> <p>Part B: 4.5%</p> <p>Administrative: 3.0%</p> |
| Mortality rates | <p><u>Pre-Retirement</u></p> <p>Class A Healthy: RP-2006 Employee Mortality Table projected generationally with Scale BB2D</p> <p>Class B Healthy: RP-2006 Blue Collar Healthy Annuitant Mortality Table projected generationally with Scale BB2D</p> <p><u>Post-Retirement</u></p> <p>Class A Healthy: RP-2006 Healthy Annuitant Mortality Table projected generationally with Scale BB2D, set forward one year</p> <p>Class B Healthy: RP-2006 Blue Collar Healthy Annuitant Mortality Table projected generationally with Scale BB2D, set forward one year</p> <p>Class A and B Disabled Retirees: RP-2006 Blue Collar Healthy Annuitant Mortality Table projected generationally with Scale BB2D, set forward three years</p> |

PROVIDENCE WATER SUPPLY BOARD
 (AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
 NOTES TO FINANCIAL STATEMENTS

Changes in the Total OPEB Liability for the Water Supply Board

| | <u>Total OPEB Liability</u> |
|--|---------------------------------|
| Balances as of July 1, 2018 | \$ <u>20,465,000</u> |
| Changes for the year: | |
| Service cost | 519,464 |
| Interest on total OPEB liability | 819,280 |
| Changes in assumptions | (1,003,396) |
| Differences between expected and actual experience | 1,083,932 |
| Change from difference in proportionate share | 2,221,628 |
| Benefit payments | (648,019) |
| Net changes | <u>2,992,889</u> |
| Balances as of June 30, 2019 | \$ <u><u>23,457,889</u></u> |

Changes of assumptions reflect a change in the discount rate from 3.58% as of June 30, 2017 to 3.87% as of June 30, 2018.

| | <u>Total OPEB Liability</u> |
|---|---------------------------------|
| Balances as of July 1, 2017 | \$ <u>22,244,941</u> |
| Changes for the year: | |
| Service cost | 702,371 |
| Interest on total OPEB liability | 653,760 |
| Changes in assumptions | (2,858,494) |
| Change from difference in proportionate share | 257,102 |
| Benefit payments | (534,680) |
| Net changes | <u>(1,779,941)</u> |
| Balances as of June 30, 2018 | \$ <u><u>20,465,000</u></u> |

Changes of assumptions reflect a change in the discount rate from 2.85% as of June 30, 2016 to 3.58% as of June 30, 2017.

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.87%) or 1 percentage point higher (4.87%) than the current discount rate at June 30, 2019:

| | <u>1% Decrease</u> | <u>Current</u> | <u>1% Increase</u> |
|----------------------|--------------------|-----------------|--------------------|
| | <u>2.87%</u> | <u>Discount</u> | <u>4.87%</u> |
| | | <u>Rate</u> | |
| | | <u>3.87%</u> | |
| Total OPEB Liability | \$ 27,186,053 | \$ 23,457,889 | \$ 20,485,988 |

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58%) or 1 percentage point higher (4.58%) than the current discount rate at June 30, 2018:

| | <u>1% Decrease</u> | <u>Current</u> | <u>1% Increase</u> |
|----------------------|--------------------|-----------------|--------------------|
| | <u>2.58%</u> | <u>Discount</u> | <u>4.58%</u> |
| | | <u>Rate</u> | |
| | | <u>3.58%</u> | |
| Total OPEB Liability | \$ 24,216,062 | \$ 20,465,000 | \$ 17,546,733 |

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates at June 30, 2019:

| | <u>1% Decrease</u> | <u>Healthcare</u> | <u>1% Increase</u> |
|----------------------|--------------------|-------------------|--------------------|
| | | <u>Cost Trend</u> | |
| | | <u>Rate</u> | |
| Total OPEB Liability | \$ 20,048,240 | \$ 23,457,889 | \$ 27,828,133 |

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates at June 30, 2018:

| | <u>1% Decrease</u> | <u>Healthcare</u> | <u>1% Increase</u> |
|----------------------|--------------------|-------------------|--------------------|
| | | <u>Cost Trend</u> | |
| | | <u>Rate</u> | |
| Total OPEB Liability | \$ 19,877,371 | \$ 20,465,000 | \$ 21,145,453 |

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the City recognized OPEB expense of \$824,032. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflow of Resources</u> | <u>Deferred Inflow of Resources</u> |
|-----------------------|--|---|
| Change of Assumptions | \$ 903,277 | \$ 2,948,701 |

For the year ended June 30, 2018, the City recognized OPEB expense of \$879,715. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflow of Resources</u> | <u>Deferred Inflow of Resources</u> |
|-----------------------|--|---|
| Change of Assumptions | \$ - | \$ 2,355,000 |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30

| | |
|------|-----------------------|
| 2020 | \$ (504,368) |
| 2021 | (504,368) |
| 2022 | (504,368) |
| 2023 | (504,368) |
| 2024 | <u>(27,952)</u> |
| | <u>\$ (2,045,424)</u> |

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST SIX FISCAL YEARS*

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Total pension liability: | | | | | | |
| Service cost | \$ 979,926 | \$ 980,977 | \$ 1,017,119 | \$ 941,053 | \$ 854,182 | \$ 893,162 |
| Interest | 5,396,418 | 5,258,402 | 5,172,289 | 5,130,041 | 5,509,989 | 4,946,549 |
| Differences between expected and actual experience | 107,440 | 288,353 | 579,761 | (223,279) | 79,253 | |
| Change from difference in proportionate share | | (478,117) | (1,181,115) | 3,875,236 | | |
| Changes of assumptions | | | | 3,083,805 | 40,391 | |
| Benefit payments, including refunds of member contributions | (5,156,388) | (5,178,444) | (5,178,542) | (5,531,918) | (4,663,093) | (4,973,233) |
| Net change in total pension liability | 1,327,396 | 871,171 | 409,512 | 7,274,938 | 1,820,722 | 866,478 |
| Total pension liability - beginning | 68,687,560 | 67,816,389 | 67,406,877 | 60,131,939 | 58,311,217 | 57,444,739 |
| Total pension liability - ending | 70,014,956 | 68,687,560 | 67,816,389 | 67,406,877 | 60,131,939 | 58,311,217 |
| Plan fiduciary net position: | | | | | | |
| Contributions - employer | 4,180,000 | 3,828,000 | 3,636,754 | 3,615,102 | 3,212,354 | 2,945,209 |
| Contributions - member | 634,544 | 610,831 | 573,624 | 615,760 | 1,037,505 | 911,508 |
| Net investment income | 764,455 | 1,198,417 | 1,752,168 | 401,320 | 331,724 | 1,210,438 |
| Change from difference in proportionate share | | (54,698) | (298,595) | 1,086,733 | | |
| Benefit payments, including refunds of member contributions | (5,426,927) | (5,178,444) | (5,178,542) | (5,531,918) | (4,663,093) | (4,973,233) |
| Administrative expense | (8,608) | (11,173) | (12,559) | (9,408) | (9,367) | (71,955) |
| Net change in plan fiduciary net position | 143,464 | 392,933 | 472,850 | 177,589 | (90,877) | 21,967 |
| Plan fiduciary net position - beginning | 17,906,778 | 17,513,845 | 17,040,995 | 16,863,406 | 16,954,283 | 16,932,316 |
| Plan fiduciary net position - ending | 18,050,242 | 17,906,778 | 17,513,845 | 17,040,995 | 16,863,406 | 16,954,283 |
| Net Pension Liability - Ending | \$ 51,964,714 | \$ 50,780,782 | \$ 50,302,544 | \$ 50,365,882 | \$ 43,268,533 | \$ 41,356,934 |
| Plan fiduciary net position as a percentage of the total pension liability | 25.78% | 26.07% | 25.83% | 25.28% | 28.04% | 29.08% |
| Covered payroll | \$ 13,580,693 | \$ 13,790,686 | \$ 12,980,186 | \$ 13,096,208 | \$ 12,930,447 | \$ 11,900,000 |
| Net pension liability as a percentage of covered payroll | 382.64% | 368.23% | 387.53% | 384.58% | 334.63% | 347.54% |

*Notes:

1. The amounts presented for each fiscal year were determined as of a June 30 measurement date prior to the fiscal year end.
2. This schedule is intended to show information for 10 years - additional years will be displayed as they become available.

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST SIX FISCAL YEARS***

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Actuarially determined contribution | | | | | | |
| Contributions in relation to the actuarially determined contribution | \$ 4,180,000 | \$ 3,828,000 | \$ 3,636,754 | \$ 3,615,102 | \$ 3,212,354 | \$ 2,945,209 |
| | 4,180,000 | 3,828,000 | 3,636,754 | 3,615,102 | 3,212,354 | 2,945,209 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered payroll | \$ 13,580,693 | \$ 13,790,686 | \$ 12,980,186 | \$ 13,096,208 | \$ 12,930,447 | \$ 11,900,000 |
| Contributions as a percentage of covered payroll | 30.78% | 27.76% | 28.02% | 27.60% | 24.84% | 24.75% |

Notes to Schedule

Valuation date: July 1, 2018
Measurement date: June 30, 2019

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method Individual entry age method

Amortization method Level dollar for the 1995 deferral liability and increasing 3.5% per year for the remaining unfunded liability.

Remaining amortization period 24 years remaining as of July 1, 2017 (15 years remaining as of July 1, 2016 for the 1995 deferral).

Asset valuation method Market value of assets as represented by the City less unrecognized returns in each of the last five years plus the discounted contribution paid by the city in the following year. Unrecognized return is equal to the difference between the actual market return and the expected market return and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value.

Inflation 3.50%

Salary increases 3.50% per year before reflecting increases due to longevity compensation

Discount rate 8.00%

Investment rate of return 8.00%, net of pension plan investment and administrative expenses, including inflation.

Benefit changes There have been no changes in benefit provisions since GASB 67/68 implementation.

Cost of living adjustments COLAs commence on January 1, 2023, except for participants identified by the City who opted out of the Consent Judgements agreed to by the City. For these participants, COLAs will commence on January 1, 2036, when the Plan was projected to be greater than 70% funded with the prior valuation. Any Class B retired participant whose total benefit is greater than the base of compensation of a current employee holding the same rank that the retiree held at the time of retirement will not receive a COLA in any year until this is no longer true. We have assumed that Class B average compensation for all ranks will increase by 3.5% per year. Future COLAs will not exceed 3% per year.

*Note - This schedule is intended to show information for 10 years - additional years will be displayed as they become available.

PROVIDENCE WATER SUPPLY BOARD
 (AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
 SCHEDULE OF INVESTMENT RETURNS
 LAST SIX FISCAL YEARS*

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|-------|-------|--------|-------|-------|--------|
| Annual money-weighted rate of return, net of investment expense | 4.50% | 7.30% | 12.20% | 2.60% | 5.56% | 14.04% |

***Notes:**

1. The amounts presented for each fiscal year were determined as of a June 30 measurement date prior to the fiscal year end.
2. This schedule is intended to show information for 10 years - additional years will be displayed as they become available.

PROVIDENCE WATER SUPPLY BOARD
 (AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
 SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
 LAST TWO FISCAL YEARS*

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Total OPEB liability: | | |
| Service cost | \$ 519,464 | \$ 702,371 |
| Interest on the total OPEB liability | 819,280 | 653,760 |
| Changes of assumptions | (1,003,396) | (2,858,494) |
| Differences between expected and actual experience | 1,083,932 | |
| Change from difference in proportionate share | 2,221,628 | 257,102 |
| Benefit payments | (648,019) | (534,680) |
| Net change in total OPEB liability | <u>2,992,889</u> | <u>(1,779,941)</u> |
| Total OPEB liability - beginning | <u>20,465,000</u> | <u>22,244,941</u> |
| Total OPEB Liability - Ending | <u>\$ 23,457,889</u> | <u>\$ 20,465,000</u> |

*Note - This schedule is intended to show information for 10 years - additional years will be displayed as they become available.

**Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Board of Directors
Providence Water Supply Board
Providence, Rhode Island

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Providence Water Supply Board (the Water Supply Board), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Water Supply Board's basic financial statements, and have issued our report thereon dated January 27, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Water Supply Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water Supply Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Water Supply Board's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water Supply Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Water Supply Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Supply Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blum, Shapiro & Company, P.C.

Cranston, Rhode Island
January 27, 2020