

# Schacht & McElroy

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December 7, 2018

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

Re: Interstate Navigation Company – Application to Division for Authorization Pursuant to R.I.G.L. § 39-3-15 to incur debt

Dear Luly:

As you know, this office represents Interstate Navigation Company. Enclosed are the original and nine (9) copies of the following:

1. An Application of Interstate Navigation Company for Division authorization pursuant to R.I.G.L. § 39-3-15 to incur debt.
2. A draft Notice as required by Division Rule 14(d). Please review it and let me know if it is acceptable and if you want me to publish it, or if you would prefer to publish it yourself in the usual fashion.
3. The testimony of David G. Bebyn, CPA, in support of this Application, which contains the information required by R.I.G.L. § 39-3-17 and Rule 14 of the Rules of Practice and Procedure of the Division.

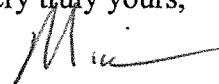
It would be appreciated if you could have this matter set for hearing as soon as possible, because the Company needs to obtain authorization to incur the debt before the end of the year, if at all possible.

I am sending a copy of the Application, together with the supporting testimony, to Leo Wold, Esq. at the Attorney General's office, to Katherine Merolla, Esq., Solicitor for the Town of Block Island, and to the Block Island Town Clerk.

Luly Massaro, Clerk  
December 7, 2018  
Page 2

If you have any questions, please feel free to call.

Very truly yours,



Michael R. McElroy

MRMc:tmg

cc: Leo Wold, Esq.  
Katherine Merolla, Esq.  
David G. Bebyn, CPA  
Susan E. Linda  
Block Island Town Clerk (certified mail RRR #7015 3010 0001 0235 8862)

*Schacht & McElroy*

STATE OF RHODE ISLAND  
DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN RE: INTERSTATE NAVIGATION COMPANY : DOCKET No. D-18 - \_\_\_\_\_

APPLICATION FOR AUTHORIZATION PURSUANT TO R.I.G.L. § 39-3-15 TO  
INCUR DEBT WITH THE WASHINGTON TRUST COMPANY

NOW COMES the Interstate Navigation Company (Interstate), pursuant to R.I.G.L. § 39-3-15, § 39-3-17, and Rule 14 of the Rules of Practice and Procedure of the Division of Public Utilities and Carriers (Division), and requests authorization to incur \$8,500,000 in debt for the purpose of constructing a new 500 passenger fast ferry.

The information required by R.I.G.L. § 39-3-17 and Rule 14 of the Rules of Practice and Procedure is incorporated into the written testimony of David G. Bebyn, CPA, which testimony is filed simultaneously herewith and is incorporated by reference herein.

WHEREFORE Interstate respectfully requests that the Division approve the loan.

Interstate Navigation Company

By: Susan E. Linda  
Susan E. Linda  
President and Secretary

STATE OF Connecticut  
COUNTY OF New London

Sworn to, subscribed, and verified before me this 7<sup>th</sup> day of December, 2018, by Susan E. Linda, President and Secretary of Interstate Navigation Company.

Brian D. Cox  
Notary Public (Seal)

Acc # 134020

Conn - Expires 1/31/23

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

IN RE: INTERSTATE NAVIGATION COMPANY :  
APPLICATION TO INCUR DEBT WITH : DOCKET No. D-18-\_\_\_\_  
THE WASHINGTON TRUST COMPANY :

**NOTICE OF HEARING**

Pursuant to the provisions of R.I.G.L. §§ 39-1-1, 39-3-15, and 39-3-17 of the Rhode Island General Laws, as amended, the Division of Public Utilities and Carriers will conduct a public hearing on \_\_\_\_\_, 2018, at \_\_\_\_\_ in a hearing room of the Division of Public Utilities and Carriers, 89 Jefferson Boulevard, Warwick, RI 02888. The hearing may continue thereafter from day to day and from time to time as required.

In this docket, the Division of Public Utilities and Carriers will consider an application by Interstate Navigation Company (“Company”) seeking consent and authorization to incur \$8,500,000 of debt to construct a new fast ferry.

The application and related documents are on file at the office of the Division of Public Utilities and Carriers, 89 Jefferson Boulevard, Warwick, RI 02888 and at the office of Schacht & McElroy, 21 Dryden Lane, Providence, RI 02904 and may be examined there.

Reference is made to Chapters 39-1, 39-3, and 42-35 of the General Laws; also specific sections 39-1-7, 39-1-8, 39-1-11, 39-1-12, 39-1-16, 39-1-18, 39-1-20, 39-3-24, 39-3-25, 39-3-30, 42-35-8, 42-35-9, 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 941-4500 FIVE DAYS IN ADVANCE OF HEARING DATE.

Macky McLeary, Administrator

\_\_\_\_\_, 2018

**Finance Testimony  
Of  
David G. Bebyn, CPA**

**For  
INTERSTATE NAVIGATION COMPANY**

**Before  
RHODE ISLAND DIVISION OF  
PUBLIC UTILITIES AND CARRIERS**

**Docket No. D-18-\_\_\_\_\_**

**December 2018**

1 **Q. Please state your name and business address for the record.**

2 A. My name is David G. Bebyn CPA and my business address is 21 Dryden Lane,  
3 Providence, Rhode Island 02904.

4

5 **Q. By whom are you employed and in what capacity?**

6 A. I am the President of B&E Consulting LLC (B&E). B&E is a CPA firm that  
7 specializes in utility regulation, expert rate and accounting testimony, tax and accounting  
8 services.

9

10 **Q. Are you the same David G. Bebyn who has previously filed expert accounting  
11 and rate testimony for Interstate Navigation Company (Interstate) in previous  
12 dockets?**

13 A. Yes, I am.

14

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

16 A. Interstate is seeking Division approval of a new borrowing in the amount of \$8.5  
17 million from the Washington Trust Company to support the construction of a new 500  
18 passenger fast ferry that will cost about \$10.5 million. I will provide the reasoning behind  
19 Interstate's selection of the lender and financing terms for the \$8.5 million loan. I will also  
20 present the information required by the Rules of the Division, so that the Division can  
21 review and evaluate this proposed financing package. The commitment letter from  
22 Washington Trust Company is attached hereto as DGB-1.

23

24 **Q. How will the proceeds of this borrowing be used?**

25 A. The proceeds of the \$8,500,000 loan will be used to construct a new fast ferry which  
26 will be used on the Point Judith to Block Island fast run. This fast vessel will cost  
27 approximately \$10,500,000 and will be built by Gladding-Hearn Shipbuilding, which is the  
28 same company that built Interstate's fast ferry, the MV Athena. The first \$2 million of  
29 construction costs will come from Interstate's available cash and \$1.5 million held in  
30 Interstate's capital fund reserve account. This capital fund was approved by the RIPUC (in

1 Order 23287) and was funded by the ratepayers' share of Interstate's over earnings for  
2 three years (FY 2015, FY 2016 & FY 2017).

3

4 **Q. Mr. Bebyn, could you provide some background information on this vessel and**  
5 **how it will be used in Interstate's operations?**

6 A. Certainly. This vessel will have 500 passenger capacity which is 250 passengers more  
7 than the current fast ferry (Athena) used on the run from Point Judith to Old Harbor, Block  
8 Island. The current fast ferry has many times during the summer period sold out, especially  
9 on weekends and holidays. The company reviewed these sell out periods in order to project  
10 ridership for the proforma attached to schedule DGB-2. Management has estimated that the  
11 new fast ferry would carry an additional 21,885 passengers. This would be a benefit to the  
12 traditional ferry service because the fast ferry service provides a financial subsidy to the  
13 traditional service which helps to hold down rates on the traditional year-round lifeline  
14 service.

15

16 **Q. What would happen to the Athena?**

17 A. The MV Athena is projected to be repurposed for the current Newport fast ferry run.  
18 The existing Newport fast ferry vessel (MV Islander) is projected to serve as a stand by  
19 vessel. As a result, the MV Islander will be available for chartering. There is also a  
20 possibility of generating more revenue if Interstate is successful in obtaining a contract  
21 award for the RIDOT Providence to Newport summer-time fast ferry run. The MV Islander  
22 would allow Interstate to bid on this run.

23

24 **Q. Mr. Bebyn did Interstate request proposals from other banks for this new**  
25 **financing?**

26 A. Yes. The Division has instructed Interstate in past financing filings to be attentive to  
27 obtaining competitive offerings before committing to future borrowings from Washington  
28 Trust Company. As a result, Interstate solicited bids from all major leading institutions  
29 doing business in RI. Eventually, Interstate negotiated seriously with three banks in

1 order to obtain the best financing package available for this debt. The banks were as  
2 follows:

- 3 1. The Washington Trust Company
- 4 2. TD Bank
- 5 3. Citizens Bank

6  
7 **Q. Did all banks offer both variable and fixed rates?**

8 A. Yes. All banks quoted variable rates for the construction term of the loan and fixed  
9 rates for the permanent portion of the loan. Since rates are still at very low levels, Interstate  
10 did not request variable rates for the permanent loan. In lieu of variable rates, each bank  
11 provided their swap equivalent fixed rate quote at Interstate's request.

12  
13 **Q. How did you evaluate the three proposals?**

14 A. I prepared a comparative schedule DGB-3. This schedule shows in a summary format  
15 the proposals made.

16  
17 **Q. What were the proposals?**

18 A. As stated earlier, three banks (TD Bank, Washington Trust and Citizens) were  
19 interviewed by Interstate management. All three improved on their initial proposals prior  
20 to their interviews. The numbers shown on schedule DGB-3 represents their best and final  
21 rates as of May 24, 2018. Since each bank proposed a swap rate, all three banks had no  
22 prepayment penalty before the end of term of the loan (but there could be a swap breakage  
23 fee). Regarding the security for the loan, only the new vessel will secure the loan, except  
24 that Washington Trust will also have a lien on Interstate's business assets, but not its other  
25 vessels.

26  
27 **Q. What were the construction loan proposals?**

28 A. TD Bank and Washington Trust were almost tied (2.68% vs 2.71%) with only 3 basis  
29 points separating the two of them. Citizens came in closely behind at 2.81%. TD Bank,  
30 Washington Trust and Citizens all used a floating rate of Libor, but each added 0.77%,  
31 0.80% and 0.90% respectively.



1 **Q. What were the swap rate permanent loan proposals?**

2 A. TD Bank and Washington Trust were almost tied once again using a swap Libor and  
3 adding 0.77% and 0.80% respectively. However, when requesting their “all in” rate TD  
4 Bank was 6 basis points lower than Washington Trust (3.76% vs 3.82%) due to a slightly  
5 lower profit spread. Citizens was 9 basis point more than Washington Trust and 15 basis  
6 points more than TD Bank. All three banks offered a forward rate lock option which was  
7 about 10 basis points above their “all in” rate.

8

9 **Q. What does Interstate want to do at this time?**

10 A. Interstate is requesting approval from the Division to finance the new vessel with  
11 Washington Trust. Washington Trust has been Interstate’s lender for many years and  
12 management is very comfortable with them. Washington Trust knows Interstate’s business  
13 and can meet Interstate’s banking needs. Interstate carefully considered the TD Bank  
14 proposal. However, the 6-basis point spread was not considered enough of a spread to  
15 warrant moving to an unfamiliar lender. The cost of 6 basis points on the \$8,500,000 loan  
16 would be about \$5,000 per year. In addition, Washington Trust has a location in  
17 Narragansett, where Interstate’s office is located, but TD Bank’s closest branch is in  
18 Warwick. This would make Interstate’s cash deposits more difficult.

19

20 **Q. Mr. Bebyn, what terms are included in the Washington Trust Company**  
21 **commitment document for the \$8,500,000 new fast ferry loan?**

22 A. The 1<sup>st</sup> two years (Construction period) will use a floating rate of 30-day Libor +  
23 0.80% (2.71% as of 05/24/18) and the final eight years will be fixed via Washington Trust  
24 Company’s swap equivalent rate based on Libor + 0.80% (3.73% as of 05/24/18). The  
25 forward lock in rate option as of 05/24/18 was 3.82% and Interstate may elect to lock due  
26 to rising interest rates. Please note that the 05/24/18 rates were presented to evaluate each  
27 lender on an even basis. The final approved rate would use the current Libor which has  
28 increased about 50 basis points since May 24<sup>th</sup>.

29

30

1 **Q. What other terms are in the commitment letter?**

2 A. The loan is a 10-year loan with a 25-year amortization. The first two years are interest  
3 only. The remainder of the ten-year term includes payments of principal and interest. The  
4 ten-year term will result in a balloon payment due at the end of the ten years. It is  
5 expected that this balloon payment will be rolled over into another ten-year loan at that  
6 time. Washington Trust has also agreed to have interest only payments in the winter with  
7 larger payments in the summer. These seasonal payments will synchronize with  
8 Interstate's seasonal cash flow.

9  
10 Other terms are as follows:

11 1 Funds will be advanced, after Interstate's initial equity of \$2 million, against  
12 work completed on the new vessel. The total estimated project cost is \$10.5  
13 million. Interstate will be required to contribute additional equity if the project  
14 cost increases above the \$10.5 million estimate.

15  
16 2 The collateral for the loan is a first preferred ship's mortgage position on the  
17 new vessel. Also, Interstate will give the bank a security interest in its business  
18 assets, a collateral assignment of its licenses, contracts and permits, and a  
19 conditional assignment of leases with respect to the Point Judith and Block  
20 Island docking facilities. For the most part, this is the same collateral that the  
21 bank already has on Interstate's current debt.

22  
23 3 There is a prepayment penalty only to compensate the lender for any swap  
24 breakage fees.

25  
26 4 Financial covenants are as follows:

- 27
- 28 • Borrower to maintain Debt Service Coverage (DSC) of 1.25. The  
29 DSC will be calculated as net income plus depreciation/amortization  
30 and interest expense, divided by current maturities of long-term debt  
31 plus interest expense.
  - 32 • The DSC after routine capital expenditures must be 1.15.
  - 33 • Interstate must maintain a loan-to-value (LTV) ratio of 80% of the  
completed vessel.

1 **Q. How will this financing impact the ratepayers?**

2 A. This filing will not decrease the weighted cost of debt and equity since this debt is not  
3 included in the traditional service ferry rates. Interstate's fast ferry service operates as a  
4 separate division and accounts for all direct revenues and direct costs separately.

5 However, the fast ferry operation does provide a substantial subsidy to the traditional  
6 operations. The fast ferry subsidy in the settlement for PUC Docket #4373 was \$481,986.

7 The subsidy from the fast ferry operation for the past two years as reported in Interstate's

8 FY 2017 annual report was in excess of \$1,000,000. Furthermore, to assist the Washington

9 Trust in its evaluation of Interstate's financial position, a proforma projection was prepared

10 (schedule DGB-2). The proforma dated October 9<sup>th</sup>, 2018 showed that inclusion of the new

11 fast ferry will generate a small amount of additional net income for Interstate while

12 providing stand by additional fast ferry capacity and other opportunities. This calculation in

13 October projected a loan of \$8 million vs \$8.5 million currently. The updated calculation

14 using \$8.5 million would result in a small reduction in current profits of about \$11,000.

15 Please note that the final Libor rate might also be somewhat higher than what is presented

16 in DGB-3.

17

18 **Q. Will Interstate require an increase in rates on its traditional operation or fast-**  
19 **ferry operation to pay the debt service on this new debt?**

20 A. I do not believe so. As I stated above, Interstate's fast ferry division more than pays  
21 for all its direct expenses including all debt service payments (principal and interest).

22 My proforma projection including the additional \$500,000 of debt, shows that

23 inclusion of the new fast ferry should not require a rate increase and should generate

24 only a small net reduction in current profits for Interstate. Interstate should still be

25 generating an overall net profit.

26

27 **Q. Are the terms of the borrowing in the best interest of the ratepayers?**

28 A. Absolutely.

29

1 **Q. Is there an impact of this borrowing on the debt/equity ratio or any of the other**  
2 **information required by the Division's rules?**

3 A. No. Due to Interstate's regulatory structure, the fast ferry division debt is not included  
4 in Interstate's capital structure and the new fast ferry will not be included in rate base. The  
5 fast ferry division's debt service is not covered by depreciation and a return on rate base  
6 but rather direct expenses including all principal and interest paid from fast ferry rates.

7

8 **Q. Is there a need for expedited approval?**

9 A. Yes. The construction contract for the new vessel must be signed by December  
10 31<sup>st</sup>, 2018 in order for the vessel to be completed by Memorial Day 2020. Any delay  
11 after December 31<sup>st</sup>, 2018 will increase the construction price by \$500 per day. In  
12 addition, as set forth in the commitment letter, the loan must close by December 28<sup>th</sup>,  
13 2018, with "time of the essence". Therefore, Interstate respectfully requests that the  
14 Division give its approval by December 28<sup>th</sup>, 2018.

15

16 **Q. Does that conclude your testimony?**

17 A. Yes.



WASHINGTON TRUST®

November 14, 2018

The Interstate Navigation Company  
a/k/a Interstate Navigation Co., Inc.  
P.O. Box 482  
New London, CT 06320  
Attention: Ms. Susan Linda, President

Re: Loan Commitment

Dear Susan:

We are pleased to advise you of our commitment to make a new \$8,500,000 loan to The Interstate Navigation Company substantially in accordance with the terms and conditions set forth on the Term Sheet which is attached hereto.

This Commitment is based upon our present understanding of the transaction. As additional facts and circumstances become known to us, we may impose additional terms and conditions. The terms and conditions of this Commitment are not limited to the Term Sheet. Those matters which are not covered by or made clear in the Term Sheet are subject to the mutual agreement of the parties.

This Commitment is conditional upon:

- (a) The preparation, execution, and delivery of legal documentation in form and substance satisfactory to the Lender and its legal counsel, Brown Rudnick LLP, which substantially incorporate the terms and conditions outlined or referred to in this Commitment;
- (b) The absence of any material adverse change in the financial condition, business, operations, or control of the Borrower since the date of the financial statements most recently delivered to the Lender;
- (c) The receipt of evidence that the Borrower has obtained all necessary approvals from the Rhode Island Division of Public Utilities and Carriers with respect to (i) the credit facilities outlined herein; and (ii) the release of reserved funds toward the project budget.
- (d) The review and approval by Lender's counsel of the Borrower's organizational documents.

By your acceptance of this Commitment, you agree to be responsible for all costs and expenses incurred by us including, but not limited to, legal fees and disbursements and other expenses incurred by us in connection with processing the transactions contemplated herein, whether or not the transactions do, in fact, close. We agree to cover the first \$10,000 of closing costs.

*Personal Banking ★ Commercial Banking ★ Wealth Management*

[www.washtrust.com](http://www.washtrust.com)

Member FDIC



Washington Trust is a registered trademark of The Washington Trust Company, of Westerly

The Interstate Navigation Company  
November 14, 2018

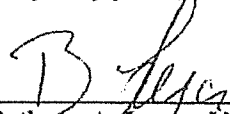
This Commitment supersedes your loan application, any outstanding commitment letters and all other prior dealings with the Lender in connection with the transactions contemplated herein. Prior receipt of any document will not constitute approval of that document unless expressly stated otherwise in the Term Sheet.

The terms of this Commitment may not be waived, modified, or in any way changed by implication, correspondence, or otherwise unless such waiver, modification, or change is made in the form of a written amendment to this Commitment agreed to by all parties. Also, this Commitment may not be assigned without the Lender's prior written consent.

If for any reason the transactions contemplated hereby do not close by December 28, 2018, time being of the essence, this Commitment shall lapse and shall be of no further force or effect unless the time for closing is extended in writing by the Lender.

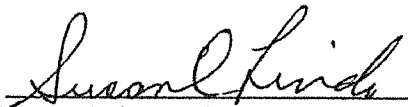
This Commitment shall become effective only upon your written acceptance hereof which must be returned to us not later than November 20, 2018, time being of the essence.

Very truly yours,

  
\_\_\_\_\_  
Bethany A. Lyons, Vice President

ACCEPTED AND AGREED TO THIS 14<sup>th</sup> DAY OF November, 2018.

THE INTERSTATE NAVIGATION COMPANY A/K/A  
INTERSTATE NAVIGATION CO., INC.

By:   
\_\_\_\_\_  
Susan Linda, President

The Interstate Navigation Company  
November 14, 2018

**TERM SHEET**

**Borrower:** The Interstate Navigation Company, a/k/a Interstate Navigation Co., Inc.

**Purpose:** Construction of a new high speed vessel.

**Amount:** Up to \$8.5 million. Funds will be advanced, after borrower equity of \$2 million, on a monthly basis against work completed on the vessel. If the total estimated project cost increases above \$10.5 million, the borrower will be required to contribute the differential in equity prior to loan funding. If the total remaining project cost ever exceeds the aggregate of the undisbursed loan proceeds and undisbursed equity proceeds, the borrower will inject additional equity to cover such excess costs.

**Collateral:** During construction: a first priority security interest in the work-in-process vessel and construction materials and a collateral assignment of the construction contract and warranties. Upon completion: a first priority Preferred Ship Mortgage from Borrower to Lender with respect to the subject motor vessel. At all times: a security interest in all of the Borrower's business assets, a Collateral Assignment of Licenses, Contracts and Permits from Borrower to the Lender with respect to all Borrower's contracts, agreements, licenses, permits and warranties including, without limitation, those related in any manner to the construction and operation of the high speed ferry and the Conditional Assignments of Leases from Borrower to Lender with respect to the Narragansett and Block Island docking facilities.

**Commitment Fee:** None

**Guarantor:** None

**Term:** 10 years

**Interest Rate:** Floating at 30 day LIBOR + 0.80%; Rate to be fixed via a swap for the final eight (8) years of the loan term. Borrower will have the option to forward rate lock the rate at closing or can wait to lock the rate at conversion to an amortizing facility. The all in rate will include the base index, the 80 bp spread and a 15 bp profit spread.

**Repayment:** Interest only for the first 24 months with payments of principal and interest based on a 25 year amortization schedule for the remainder of the 10 year term thereafter, with a balloon payment of the unamortized balance due upon maturity.

**Prepayment Penalty:** Any prepayment will be subject to a penalty sufficient to compensate Lender for any swap breakage fees if the swap option is chosen.

The Interstate Navigation Company  
November 14, 2018

Vessel  
Construction Contract: Closing will be subject to receipt of a vessel construction contract in form and substance acceptable to Lender.

Operating Account: Borrower's main operating account to be maintained at The Washington Trust Company.

Marine Surveyor: Lender will hire a qualified marine surveyor to review the budget and construction contract for adequacy as well as the monthly requisitions and construction inspections.

Title Abstract and  
Vessel Documentation: Upon construction completion, the Borrower shall submit to Lender for approval vessel documentation and U.S. Coastguard abstracts of title with respect to the motor vessel securing the loan reflecting the Lender as holder of a first priority preferred ship mortgage in the motor vessel.

Lender's Counsel: Michael K. Davis, Esquire  
Brown Rudnick LLP  
10 Memorial Boulevard  
Providence, Rhode Island 02903  
Phone: (401) 276-2644  
Fax: (401) 276-2601

Organizational  
Documents: The Borrower shall provide such organizational documents, votes, certificates, consents, and other materials as may be required by the Lender, and such documents must be satisfactory in form and content to Lender and Lender's counsel.

Borrower's Counsel  
Opinion: The Borrower shall deliver at closing an opinion of the Borrower's counsel, in form and substance satisfactory to the Lender's counsel, that the Borrower is legally existing and in good standing with all requisite power and authority to enter into and perform its obligations under the loan documents, and that the same have been duly authorized, validly executed, and delivered.

Financial Covenants: Based on the August 27, 2018 appraisal by Marine Safety Consultants which valued the completed vessel at \$10,665,000, the loan to value ratio will be 80% and the loan to value ratio shall not exceed 80% for the remainder of the loan term.. Borrower to maintain a minimum Debt Service Coverage (calculated as net income plus depreciation/amortization and interest expense, divided by current maturities of long term debt for the year plus interest expense) of 1.25X, which shall be an ongoing covenant, will be subject to a minimum annual test based on accountant prepared year-end financial statements to begin testing the first full year after initial funding.



The Interstate Navigation Company  
November 14, 2018

**Non-Assignable:** The Borrower shall have no right to assign any rights under this Commitment Letter.

**Cross Default:** The loan will not be cross-defaulted with Borrower's existing credit facilities.

**Closing Costs:** All reasonable expenses incurred in connection with the due diligence, closing and administration of this transaction will be the responsibility of the Borrower including, without limitation, appraisal, title abstracts, marine surveyor fees and legal fees. Lender will agree to cover the first \$10,000 of closing costs.

63182579 v3

# *B&E Consulting, LLC*

*Certified Public Accountants*

*(401) 785-0800*  
*Fax (401) 421-5696*

*21 Dryden Lane*  
*Providence, RI 02904*

*dbebyn@beconsulting.biz*  
*wedge@beconsulting.biz*

October 9, 2018

Washington Trust Company  
Attn: Bethany Lyons

Dear Bethany:

The following schedule is presented to assist in the evaluation of the inclusion of a new high-speed ferry for the Interstate Navigation Company's operations. This proforma encompassed evaluating year to date ridership data as well other revenues, expenditures, debt service, and provisions for income taxes. The proforma shows that inclusion of the new high-speed ferry will not require any additional rate increase and will actually generate a small additional net income for Interstate.

The new high-speed vessel will cost approximately 10 million dollars. Interstate is seeking a borrowing for 8 million dollars to finance the construction and purchase of this new vessel. The remaining 2 million dollars will come from Interstate's available cash and 1.5 million dollars held in a capital fund reserve account. This capital fund was approved by the RIPUC (in Order 23287) and was funded by the ratepayer's share of Interstate's over earnings for the past three years (FY 2015, FY 2016 & FY 2018).

### **Assumptions used in the proforma**

- The revenues and expenditures begin with the figures from the FY 2017 review financials.
- The FY 2017 passenger and vehicle counts were adjusted for the projected FY 2019 growth/decline in ridership based upon the actual summer 2018 ridership which makes up most of the revenue for FY 2019. The results of the projections are that the traditional Point Judith passenger ridership declines about 8% from FY 2017, the traditional Newport passenger ridership declines about 15% from FY 2017, the high-speed Point Judith passenger ridership increases about 2% from FY 2017, and the traditional Point Judith vehicle counts increases about 4% from FY 2017.
- The traditional Point Judith freight revenue declines about 6% from FY 2017.
- The bike/moped revenue for all runs and services declines about 12% from FY 2017.
- The other revenue for all runs and services declines about 20% primarily from reduction in traditional ferry service charters from FY 2017.
- Payroll expenses have been adjusted for annual raises.
- Repairs and maintenance have been adjusted up back to the levels which were supported in Interstate's last rate filing.

- Depreciation has been reduced to reflect that the MV Block Island was fully depreciated in FY 2017.
- The remaining expenditure accounts have been adjusted based upon activity from FY 2018.
- The provision for income tax has been adjusted to reflect the new 21% tax rate.

**Assumptions for the new high-speed ferry adjustments used in the proforma**

- The increase in high-speed ferry revenue reflects that the new vessel will be able to carry more passengers. This ability to carry more passengers will mean more high-speed passenger revenues because there are many times during the summer when the current high-speed vessel is sold out. Based upon these sell out periods and the additional capacity of the new vessel it is projected that there will be 21,885 additional passengers for the high-speed service.
- While there will be additional revenue for the high-speed service, it is projected that there will be some reduction of traditional ridership because some of the additional high-speed passengers currently have to ride the traditional ferry when the current high-speed ferry is sold out. We are estimating that 60% of the new high-speed ferry passengers will come from Interstate's traditional passengers, based primarily upon the difference between online sales and in person sales.
- Payroll expenses have been increased to reflect 2 new crew members need to run the larger high-speed vessel.
- Depreciation has been adjusted to reflect the new vessel. Since the RIPUC will only give Interstate rates to cover the annual principal for the high-speed vessel, the depreciation presented is sync with the estimated principal for the new vessel.
- Fuel expense has not been adjusted because the new vessel is estimated to burn the same amount of fuel as the current smaller vessel due to more efficient new engines.
- Insurance has been adjusted to cover the additional insurance on the new vessel and is based upon the cost of the new vessel.
- Payroll taxes have been adjusted to reflect the cost of the additional crew.
- Interest expense has been increased to reflect the 8 million borrowing and is utilizing 2 year forward rate lock for the 8-year swap rate which is 3.98% as provided by Washington Trust on September 28, 2018.
- Lastly the new high-speed vessel is projected to service the Point Judith run. The existing Point Judith high-speed ferry is projected to be repurposed for the current Newport high-speed run. The existing Newport high-speed vessel is projected to serve as a stand by vessel. As a result, the existing Newport high-speed ferry will be available for chartering which is estimated to generate an additional \$150,000, net of expenses. There is also a possibility of generating more revenue with a successful contract award of the RIDOT Providence to Newport ferry run, however to be conservative only the additional charter revenue is presented.

Respectfully Submitted,

David G Bebyn CPA

INTERSTATE NAVIGATION CO., INC.  
PROFORMA STATEMENT OF INCOME FOR NEW HIGH SPEED FERRY

	Proforma Year without New Ferry	Adjustments for inclusion of New Ferry	Proforma Year with New Ferry
<b>OPERATING REVENUES</b>			
Passenger - Traditional Service	6,156,914	(287,514)	5,869,400
Passenger - Fast Ferry Service	2,317,961	755,948	3,073,909
Vehicles - Traditional Service	3,832,505	0	3,832,505
Freight - Traditional Service	1,119,694	0	1,119,694
Bikes, Mopeds, & etc - Both Services	169,292	0	169,292
Other Revenue - Both Services	1,229,683	150,000	1,379,683
	<u>14,826,049</u>	<u>618,434</u>	<u>15,444,483</u>
<b>OPERATING EXPENSES</b>			
Payroll	3,860,432	23,750	3,884,182
Repairs and Maintenance	1,178,456	-	1,178,456
Depreciation and Amortization	980,347	192,822	1,173,169
Fuel and Lube	1,357,123	-	1,357,123
Wharfage and Rent	438,510	-	438,510
Supplies	352,423	-	352,423
Utilities	147,679	-	147,679
Terminal and Traffic Expenses	1,384,216	-	1,384,216
General and Administrative	852,959	-	852,959
Insurance and Casualties	766,519	70,000	836,519
Payroll Taxes	380,573	1,900	382,473
Other Taxes	332,407	-	332,407
Other Vessel Expense	184,985	-	184,985
Profit Sharing Expense	152,397	-	152,397
	<u>12,369,025</u>	<u>288,472</u>	<u>12,657,497</u>
<b>OPERATING INCOME</b>	<u>2,457,024</u>	<u>329,962</u>	<u>2,786,986</u>
<b>OTHER INCOME (EXPENSES)</b>			
Interest Expense	(284,423)	(313,042)	(597,465)
Interest Income	20,861	-	20,861
<b>Total Other Income (Expense)</b>	<u>(263,562)</u>	<u>(313,042)</u>	<u>(576,604)</u>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	2,193,462	16,920	2,210,382
Provision for Income Taxes	460,627	3,553	464,180
<b>NET INCOME (LOSS)</b>	1,732,835 *	13,367	1,746,201 *

\* Note that under the earnings sharing mechanism of the RI PUC, to the extent that Interstate earns more than a 12% ROE, then 50% of the excess must be utilized to benefit the ratepayers

Bank	Loan Amount	Security	Term/ Amortization	Construction Rate	Permanent	"All in" Rate as of 5/1	Forward Lock	Pre-Pmt Fee	DSC	Seasonal Payments	LTV Max	Fees
TD Bank	\$8m	New Boat	10 years/ 25 years	Libor + 0.77% (2.68%)	Swap Libor + 0.77%	3.67%	3.76%	No	1.20	Yes	80%	None <sup>1</sup>
Washington Trust	\$8m	New Boat Plus all business assets	10 years/ 25 years	Libor + 0.80% (2.71%)	Swap Libor + 0.80%	3.73%	3.82%	No	1.25	Yes	80%	None <sup>2</sup>
Citizens	\$8m	New Boat	10 or 12 years/ 25 years (320,000/yr)	1 month Libor + 0.90% (2.81%)	Swap Libor + 0.90%	3.82% (10 yr) 3.85% (12 yr)	3.93% (10 yr) 3.96% (12 yr)	No	1.20	Yes	80%	None <sup>3</sup>

<sup>1</sup> \$15,000 in closing costs paid by TD Bank.

<sup>2</sup> \$10,000 in closing costs paid by Washington Trust, but they require a \$10,000 check from Interstate with the commitment letter.

<sup>3</sup> Primary deposit and cash management to be considered and \$5,000 in closing costs paid by Citizens. Closing costs capped at \$8,000 total (\$5,000 Citizens and \$3,000 Interstate).