

**APPLICATION OF  
THE PROVIDENCE WATER SUPPLY BOARD FOR  
AUTHORITY TO BORROW FROM THE DRINKING WATER  
STATE REVOLVING FUND IN AN AMOUNT OF  
\$21,000,000**

**May 2021**

**D-21-\_\_\_\_\_**



May 14, 2021

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  
\$21,000,000 from the RIIB Docket No. D-21-\_\_\_\_\_

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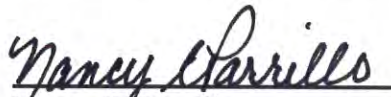
**William E. O'Gara, Esq.**  
Legal Advisor

Dear Ms. Massaro:

Enclosed for filing are an original and four copies of Providence Water's request for authority to borrow \$21,000,000 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

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

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**(401) 521-6300**

125 Dupont Drive  
Providence, RI 02907

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## PROVIDENCE WATER SUPPLY BOARD

Application for Authority to Borrow from the Rhode Island Infrastructure Bank in an amount  
of \$21,000,000

### 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 \$21,000,000 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 6/30/2020.

STATE OF RHODE ISLAND  
DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN RE: PROVIDENCE WATER SUPPLY BOARD

DOCKET NO. D-21-\_\_

**R.I.G.L. § 39-3-15**  
**APPLICATION OF THE PROVIDENCE WATER SUPPLY BOARD**  
**FOR AUTHORITY TO BORROW \$21 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 \$21,000,000.00 primarily for the rehabilitation of water mains and appurtenances at an interest rate not to exceed 3.5%.
3. The borrowing will be provided by the RI Infrastructure Bank, pursuant to a resolution of the Providence Water Supply Board dated January 20, 2021.
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 and Nancy Parrillo of Providence Water 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 the amount of \$21,000,000.00.

PROVIDENCE WATER SUPPLY BOARD




BY:  
Ricky Caruolo  
GENERAL MANAGER

STATE OF RHODE ISLAND  
COUNTY OF PROVIDENCE

Subscribed and sworn before me this 13 day of May 2021



Notary Public   
Gabriela Rodriguez  
My Commission Expires: 12/11/22  
# 757383

STATE OF RHODE ISLAND  
DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN RE: PROVIDENCE WATER SUPPLY BOARD:  
APPLICATION FOR BORROWING AUTHORITY

Docket No. D-21-\_\_\_\_\_

**NOTICE OF FILING AND PUBLIC HEARING**

Pursuant to the provisions of the R.I.G.L §39-3-15 and §39-3-17, the Rhode Island 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 \$21,000,000 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 primarily 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, Administrator

\_\_\_\_\_, 2021

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 \$21,000,000.00, 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: Tiffany Parenteau, Esq., Chief of the Regulatory Unit, on May 14, 2021.



Mary L. Deignan-White  
Division Manager, Finance  
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-21-\_\_\_\_\_

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 (\$21,000,000).
2. The debt will be incurred primarily for the purpose of the rehabilitation of water mains and appurtenances within the system.
2. The total estimated project costs including cost of issuance, loan origination, etc., that will be borrowed are not to exceed Twenty One Million dollars (\$21,000,000).
3. Attached hereto is the latest Audited Financial Statement of the Providence Water Supply Board, showing the assets and liabilities of the utility.

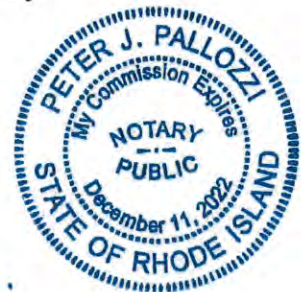
  
\_\_\_\_\_  
Xaykham Khamsyvoravong, Chairman

  
\_\_\_\_\_  
Carissa R. Richard, Secretary

STATE OF RHODE ISLAND  
COUNTY OF PROVIDENCE

Subscribed and sworn before me this 30<sup>th</sup> day of March, 2021.

  
\_\_\_\_\_  
Notary Public  
My Commission Expires: 12/11/22  
#752384





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 \$21,000,000

for

PROVIDENCE WATER SUPPLY BOARD

May 2021

Docket No. D-21- \_\_\_\_\_

1 Providence Water Supply Board

2 Testimony of

3 Nancy E. Parrillo

4

5 **Q. Please state your full name and title.**

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

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

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

10 **Q. Please describe your education and work experience.**

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

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

20 A. To provide information in support of Providence Water's application to borrow \$21 million  
21 from the Rhode Island Infrastructure Bank (RIIB). The funds will be used to continue  
22 Providence Water's work on improvements to our distribution system and appurtenances,  
23 focusing on rehabilitation of water mains, transmission lines, service lines and valves, and

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

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

4 A. This amount of \$21 million is estimated to be sufficient to cover the construction costs for  
5 this portion of the project as well as the cost of issuance, origination fee to the RIIB, and  
6 required debt service reserve fund. Any shortfall in the amount of funds available for this  
7 portion of the project will be covered by cash in the Providence Water's Restricted  
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 Infrastructure Replacement Fund is currently sufficient. However,  
14 Providence Water anticipated this borrowing and included an estimate for debt service in  
15 its most recent, three-step rate filing – Docket 4994 – that was approved by the PUC on  
16 August 27, 2020.

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 has been anticipated and included in the new three-step rate increase approved in Docket  
20 4994.

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

1 A. Yes, attached as **Exhibit I** is a Certificate of the Secretary of the Providence Water Supply  
2 Board stating that at the January 20, 2021 Board Meeting, the Board authorized the General  
3 Manager to seek approval of the Providence City Council for financing from the RI  
4 Infrastructure Bank for an amount of \$21 million. The Ordinance authorizing this  
5 borrowing was approved by the City Council on April 19, 2021. A copy of the Ordinance  
6 is included here. Please See **Exhibit II**.

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

10 Yes, a present and proforma capital structure showing the effects of the bond issue is shown  
11 at **Exhibit III**. Our projected debt to net property, plant and equipment (“debt to plant”)  
12 with this issue would be 33.53%. Our financial advisor has indicated that rating agencies  
13 consider 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. Gurchigian’s testimony, the \$21 million of available bond proceeds  
16 will be applied as follows:

17 ~ \$1,383,452 will be deposited with the trustee for a debt reserve fund; this represents one  
18 year’s debt service cost.

19 ~ Approximately \$290,000 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 \$19,326,547 will be available for funding  
22 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 loan closing with RI Infrastructure Bank is anticipated in late-spring of 2021.

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 ~ A \$21 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 2.084% (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 0.3% of the outstanding loan balance  
16 will be paid to RI Infrastructure Bank. The projected interest rate does not include  
17 the 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. Yes. It is included with this testimony as Exhibit VI.

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

5 A. No, however we would ask that approval be granted as soon as possible to ensure inclusion  
6 in the next RIIB round of loans which is currently scheduled for June.

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

8 A. Yes.

9

10

11

12

13



PROVIDENCE WATER

Tap Water Delivers

**RESOLUTION  
OF THE  
PROVIDENCE WATER SUPPLY BOARD**

The Hon. Jorge O. Elorza  
Mayor

Ricky Caruolo  
General Manager

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.

**BOARD OF DIRECTORS**

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Chairperson

Joseph D. Cataldi  
Vice Chairperson

Michael J. Correia  
Councilperson

Jo-Ann Ryan  
Councilperson

Sara Silveria  
Ex-Officio

Cristen L. Raucci, Esq.  
Member

Dr. Alma M. Guerrero Bready  
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 twenty-one million dollars (\$21,000,000.00) 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 20, 2021 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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\_\_\_\_\_  
Xaykham Khamsyvoravong, Chairman  
Providence Water Supply Board

  
\_\_\_\_\_  
Carissa R. Richard, Secretary  
Providence Water Supply Board

## EXHIBIT II

**City of Providence**  
STATE OF RHODE ISLAND

**CHAPTER 2021-11**

**No. 180 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 ATTENDANT EXPENSES AND APPROVING THE FINANCING THEREOF BY THE ISSUANCE OF WATER REVENUE BONDS AND NOTES THEREFOR IN THE AMOUNT NOT TO EXCEED \$21,000,000.00**

**Approved April 19, 2021**

*Be it ordained by the City of Providence:*

**SECTION 1.** The sum of Twenty-One Million Dollars (\$21,000,000) 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 Twenty One Million Dollars (\$21,000,000) 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 Twenty One Million Dollars (\$21,000,000) 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 \$21,000,000 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.

Attachment: 2021-180 (ORD-2021-11 : Water Supply Borrowing \$21 Million Dollars)



**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 Certificates 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.

IN CITY COUNCIL  
 APR 8 2021  
 FIRST READING  
 READ AND PASSED  
*Tina L. Mastromanni* CLERK  
 ACTING

IN CITY COUNCIL  
 APR 15 2021  
 FINAL READING  
 READ AND PASSED  
*[Signature]* PRESIDENT  
*[Signature]* CLERK

I HEREBY APPROVE.  
*[Signature]*  
 Mayor  
 Date: 4/19/21

Attachment: 2021-180 (ORD-2021-11 : Water Supply Borrowing \$21 Million Dollars)

**PROVIDENCE WATER  
CAPITALIZATION  
6/30/2020**

		<u>Due</u>	<u>Interest Rate</u>	<u>Actual Outstanding (1)</u>	<u>Pro-Forma Amount</u>
<b>Long Term Debt:</b>					
Safe Drinking Water Revenue Bonds 2002	(2)	9/1/2021	3.61%	\$ 329,492	\$ 329,492
Safe Drinking Water Revenue Bonds 2008A	(3)	9/1/2029	2.85%	20,324,000	20,324,000
ARRA Stimulus Bonds 2009	(4)	10/2/2015-9/1/30	041 - 3.14%	5,806,250	5,806,250
Clean Water Watershed Bonds 2012	(5)	9/1/2032	012 - 3.24%	2,093,000	2,093,000
Clean Water Watershed Bonds 2013	(6)	9/1/2033	019 - 2.53%	3,109,000	3,109,000
Safe Drinking Water Revenue Bonds 2013	(7)	9/1/2034	022 - 2.63%	19,699,000	19,699,000
Safe Drinking Water Revenue Bonds 2014	(8)	9/1/2034	022 - 3.01%	6,311,000	6,311,000
Safe Drinking Water Revenue Bonds 2015	(10)	9/1/2035	024 - 2.74%	26,035,000	26,035,000
Safe Drinking Water Revenue Bonds 2017	(11)	9/1/2036	012 - 2.64%	14,840,095	14,840,095
Safe Drinking Water Revenue Bonds 2019	(11)	9/1/2038	2.28 - 3.38%	14,699,000	14,699,000
Safe Drinking Water Revenue Bonds 2008 (ESWD)	(12)	9/1/2028	3.00%	100,000	100,000
Safe Drinking Water Revenue Bonds 2009A (ESWD)	(12)	9/1/2024	3.15%	113,667	113,667
Safe Drinking Water Revenue Bonds 2013A (ESWD)	(12)	9/1/2033	012 - 2.64%	425,158	425,158
Safe Drinking Water Revenue Bonds 2018 (PSLSR)	(14)	9/1/2024	0.00%	640,572	640,572
Safe Drinking Water Revenue Bonds 2020	(13)	9/1/2039	250 - 2.36%	-	19,100,000
Safe Drinking Water Revenue Bonds 2020 (PSLSR)	(14)	9/1/2030	0.00%	-	3,000,000
Safe Drinking Water Revenue Bonds 2021	(15)	9/1/2040	950 - 3.510%	-	21,000,000
<b>Total Bonds</b>				\$ 114,525,234	\$ 157,625,234
<b>Total Capitalization</b>				<u>\$ 114,525,234</u>	<u>\$ 157,625,234</u>
Total Assets	(9)			\$ 506,162,618	\$ 525,262,618
Debt/Total Assets				22.63%	30.01%
Net Utility Plant	(9)			\$ 451,049,596	\$ 470,149,596
Debt/Net Utility Plant				25.39%	33.53%

(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 Audited Balance Sheet Amounts as of 6/30/20

(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 6/28/2020 RIIB for Main Replacements & Appurtenances.

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

(15) Borrowing scheduled for spring 2021 for Main Replacements & Appurtenances.

## EXHIBIT IV

PROVIDENCE WATER	
Comparison of Interest Rates	
	Interest Rate
Market Rate (AIC)	2.778%
Total Interest Payments	\$ 6,425,397
Below-Market Rate (AIC)	2.084%
Total Interest and Fee Payments	\$ 5,502,270
<b>Savings:</b>	
Interest Rate	0.695%
Interest Payments	\$ 923,127
Interest Rate Savings/Market Rate	25.010%

---

*Prepared by HilltopSecurities*



235 Promenade Street, Suite 119  
Providence, Rhode Island 02908  
Riib.org

May 5, 2021

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

RE: Providence Water Supply Board - up to \$21,000,000 for Drinking Water State Revolving Fund Loan for water system 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 February 26, 2020 application of the Providence Water Supply Board (the "Borrower") at the Bank's April 19, 2021 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 \$21,000,000 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. 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) 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.

(e) 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**

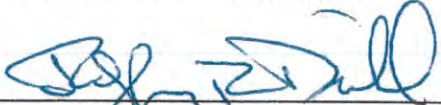
This letter shall constitute a binding commitment between the Bank and the Borrower but no third party shall have any rights arising hereunder and the Borrower shall indemnify and hold the Bank harmless from all claims arising from or in connection with this letter, the Loan or the project financed thereby. 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 or via email.

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 12 day of MAY, 2021

By: 

Title: General Manager  
Authorized Official

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

KAREN S. D. GRANDE, PARTNER  
LOCKE LORD LLP

ONE FINANCIAL PLAZA SUITE  
2800 WESTMINSTER STREET  
PROVIDENCE, RI 02903





**Department of Health**  
 Center for Drinking Water Quality  
 Room 209, 3 Capitol Hill  
 Providence RI 02908-5097  
 www.health.ri.gov  
 Phone: (401) 222-6867  
 Fax: (401) 222-6953 TTY: 711

**DRINKING WATER STATE REVOLVING FUND  
 CERTIFICATE OF APPROVAL**

Providence Water has met the program requirements of the Drinking Water State Revolving Fund (DWSRF) for the proposed 2021 Water Main Rehabilitation Program and is eligible to apply for a DWSRF loan from the Rhode Island Infrastructure Bank. The improvements consist of rehabilitating existing water mains by either main replacement or cleaning and lining the water mains within the Providence Water distribution system service area. It is the intent that the project will be funded through a DWSRF loan. Providence Water intends to apply for funding up \$21,000,000.00 for the project. Providence Water has certified that it will comply with the requirements of applicable State and Federal laws in the application package. The following conditions detail certain specific requirements for this construction project:

1. Providence Water is responsible for obtaining any other necessary permits or approvals from any Federal or State agency with authority over the project or project area.
2. All engineering and construction related costs incurred prior to May 17, 2019 are ineligible for DWSRF Program Participation.
3. All applicable architectural/engineering reports including specifications and plans are to be submitted upon their availability.
4. All requests for payment for work must be accompanied by the appropriate documentation to demonstrate compliance with all requirements associated with DWSRF funding.
5. An approved Disadvantaged Business Enterprise (DBE) utilization plan shall be obtained from the State of Rhode Island prior to issuing the Notice to Proceed. A copy of the approved DBE utilization plan shall be sent to RIDOH for the project file.
6. Short-term excavation related impacts shall be mitigated by utilizing standard sedimentation and erosion control methods. Fugitive dust related impacts shall be mitigated by using standard dust control methods. Any water used for cleaning and disinfection must be discharged in accordance with American Water Works Association and Rhode Island Department of Environmental Management standards.

Amy  
 Parmenter

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3/29/2021

Amy Parmenter, Chief  
 Center for Drinking Water Quality

Date

Project Name: 2021 Water Main Rehabilitation Program  
 Project Number: DWSRF 21-02  
 Associated PPL: 2019



**Department of Health**  
Center for Drinking Water Quality  
Room 209, 3 Capitol Hill  
Providence RI 02908-5097  
www.health.ri.gov  
Phone: (401) 222-6867  
Fax: (401) 222-6953 TTY: 711

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Department of Health**  
**Center for Drinking Water Quality**  
**Drinking Water State Revolving Fund Program**

**Categorical Exclusion**

The Rhode Island Department of Health, Center for Drinking Water Quality has reviewed the proposed Providence Water 2021 Main Rehabilitation Project submitted by Providence Water and has concluded that the project qualifies for a CATEGORICAL EXCLUSION in accordance with the requirements of RIGL 46-12.8 and the Rhode Island Drinking Water State Revolving Fund regulations (216-RICR-50-05-6), dated April 2018. The proposed project, itself, or in combination with other projects will not impact the environment, and the information provided has met the statutory intent of the Federal Clean Water Act environmental review requirements and is sufficient to issue a CATEGORICAL EXCLUSION.

Project Name(s): Providence Water 2021 Main Rehabilitation Project

DWSRF Program Number: DWSRF-21-02

Project Locations: Various locations in Providence Water distribution system service area

Project Description: The project consists of water main rehabilitation by either replacement or cleaning and lining of existing water mains throughout the service area.

Anticipated Environmental Impacts: Impacts will be minor and short term in duration (i.e. erosion, dust, noise, air quality, and traffic).

Specific Requirements: Short-term excavation related impacts shall be mitigated by utilizing standard sedimentation and erosion control methods. Fugitive dust related impacts shall be mitigated by using standard dust control methods. The water mains will be disinfected per AWWA C651-14. All discharged water will be dechlorinated/neutralized utilizing sulfur dioxide, sodium bisulfite, sodium sulfite, or sodium thiosulfate. Once the water has been dechlorinated it will be tested for residual chlorine which shall not exceed the RIDEM ambient water quality criteria of 0.019 ppm. Dechlorinated water shall be discharged into the storm sewer system with state and/or municipal approvals as applicable.

Amy  
Parmenter

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Date: 2021.03.30  
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3/30/2021

Amy Parmenter, Chief  
Center for Drinking Water Quality

Date

STATE OF RHODE ISLAND DIVISION OF PUBLIC UTILITIES AND CARRIERS

DOCKET No. D-21 - \_\_\_\_\_

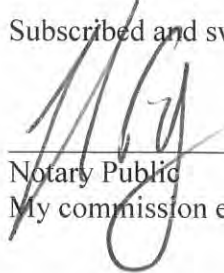
ATTESTATION UNDER RULE 1.14  
OF THE RULES OF PRACTICE AND PROCEDURE  
OF THE DIVISION OF PUBLIC UTILITIES AND CARRIERS

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

STATE OF RHODE ISLAND  
PROVIDENCE COUNTY

Subscribed and sworn to me this 14 day of MAY, 2021.

  
\_\_\_\_\_  
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 \$21,000,000

for  
PROVIDENCE WATER

May, 2021

Docket No. D-21- \_\_\_\_\_

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 over eight years, the first  
10 two years as the Senior Director of Operations and the last six years as the Deputy General  
11 Manager of Operations/Executive Engineer. From 2008 to 2012, I worked for the Pawtucket  
12 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 rehabilitation of distribution water  
20 main and appurtenances.

21

22

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

2 A. The funding from this borrowing will pay for several large distribution water main  
3 rehabilitation projects in the Hope/Blackstone, Washington Park and Upper South  
4 Providence areas of Providence. In addition, this funding will be utilized to fund smaller  
5 water main rehabilitation projects.

6

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

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

13

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

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

1 (RIDOH) have entered into multiple Bilateral Compliance Agreements (BCA) granting  
2 Providence Water stays on the annual replacement of 7% of our lead service lines.

3

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

5 A. Providence Water signed the most recent BCA for 2019/2020 on November 8, 2019  
6 (attached as **Exhibit GG-1**).

7

8 **Q. What are the general requirements of the BCA?**

9 A. The 2019/2020 BCA mostly focuses on establishing a public and private side lead service  
10 line database and investigating ways to increase the amount of customers who replace the  
11 private side of their lead service line. The two requirements that have significant financial  
12 impacts are (1) annual flushing of water mains, and (2) main rehabilitation in the amount of  
13 \$19,100,000 per year in state fiscal years 2020, 2021, and 2022. Therefore, we need this  
14 borrowing in order to remain compliant with the BCA with RIDOH, to continue our  
15 aggressive water main rehabilitation program, to reduce the amount of lead at our customers  
16 tap and to continue to provide high quality water to our customers.

17

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

19 A. Yes, it does.

**EXHIBIT GG-1**



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 90<sup>th</sup> 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 90<sup>th</sup> 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 27<sup>th</sup> 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 1<sup>st</sup>, 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 1<sup>st</sup>, 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 90<sup>th</sup> 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 90<sup>th</sup> 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 \$21,000,000

---

**[May 2021]**

Docket No. D-21-

**PROVIDENCE WATER SUPPLY BOARD**  
**TESTIMONY OF**  
**MAUREEN E. GURGHIGIAN**  
**[May 2021]**

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 office.

4  
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.

14  
15 **Q: Please describe your qualifications and experience.**

16 A: I have approximately 36 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.

27  
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**  
**[May 2021]**

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 a borrowing from Rhode Island Infrastructure Bank  
10 (“RIIB”). I have been asked by Providence Water to provide information on the  
11 debt service requirements for its proposed borrowing, and to respond to related  
12 questions.

13

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

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

24

25 **Q. Can you explain how the financing will work for the \$21,000,000 borrowing?**

26 A. Yes. Providence Water has borrowed from RIIB through the Drinking Water State  
27 Revolving Fund in the past. This loan will be similar to those previously approved  
28 by the Division. In accordance with the Safe Drinking Water Act Amendments of  
29 1996, the State of Rhode Island has created a Drinking Water State Revolving Fund  
30 administered by RIIB to provide financial assistance to water suppliers. This fund



**PROVIDENCE WATER SUPPLY BOARD**  
**TESTIMONY OF**  
**MAUREEN E. GURGHIGIAN**  
**[May 2021]**

1 uses federal capitalization grants and state matching funds to provide subsidized  
2 (approximately 25% below market-rate) loans to water suppliers for qualifying  
3 projects listed on the Project Priority List maintained by the Department of Health.  
4 RIIB receives capitalization grants from the federal government, state match and  
5 sells bonds in the public market to obtain capital to make loans to its drinking water  
6 borrowers pursuant to loan agreements. This project has been identified in  
7 Providence Water's capital program and is listed on the Department of Health's  
8 Project Priority List. Therefore, this project qualifies for a subsidized DWSRF loan  
9 from RIIB.

10  
11 **Q: What is the term of this borrowing and the applicable interest rate?**

12 A. The term is approximately 20 years from the projected completion of construction.  
13 The expected interest cost will reflect a below market rate of 25% off the current  
14 market rates. Based upon market conditions as of May 12, 2021, it is anticipated  
15 that the interest rate on the loan will not exceed a market rate of 2.78%, which  
16 would result in a projected subsidized rate of approximately 2.08%. For purposes  
17 of Division approval, we would recommend a not to exceed market rate of 3.25%  
18 and a subsidized rate of 2.50% to allow for market movement.

19  
20 **Q: How will the funds from this borrowing be disbursed?**

21 A: Approximately \$19,326,547 will be available for Project expenditures,  
22 approximately \$1,383,452 will be set aside in the debt service reserve fund, and  
23 approximately \$290,000 is allocated for costs of issuance, including rating agency  
24 fees, bond counsel, financial advisor and trustee fees, and the origination fee.

25  
26 **Q: What are the applicable schedules and deadlines for this financing?**

27 A: This borrowing is anticipated to take place in May of 2021. RIIB generally requires  
28 that all borrower approvals be in place prior to mailing the RIIB Preliminary  
29 Official Statement and/or pricing borrower loans.

30

**PROVIDENCE WATER SUPPLY BOARD**  
**TESTIMONY OF**  
**MAUREEN E. GURGHIGIAN**  
**[May 2021]**

1 **Q: What is the projected schedule of debt service for the contemplated new**  
2 **borrowings?**

3 A. The projected debt service for the new borrowings is displayed in Schedule MG-1.  
4 For the \$\$21,000,000 loan, annual debt service is expected to be approximately  
5 \$1,388,000 per year at the projected interest rates, including the RIIB annual fee.  
6 This amount is subject to change based upon the actual project costs, draw schedule  
7 and prevailing interest rates at the time of borrowing.

8  
9 **Q: Does this complete your testimony?**

10 A: Yes it does.

**Rhode Island Infrastructure Bank**  
**Safe Drinking Water SRF Program - Series 2021**  
**Preliminary Numbers as of May 12, 2021 + 80bps**

**Loan Debt Service**

Providence Water- \$21.0M 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
05/19/21							-
09/01/21	1,000.00	0.710%	106,505.00	17,850.00	124,355.00	125,355.00	125,355.00
03/01/22	-	-	188,457.25	31,498.50	219,955.75	219,955.75	-
09/01/22	948,000.00	0.720%	188,457.25	31,498.50	219,955.75	1,167,955.75	1,387,911.50
03/01/23	-	-	185,044.45	30,076.50	215,120.95	215,120.95	-
09/01/23	958,000.00	0.770%	185,044.45	30,076.50	215,120.95	1,173,120.95	1,388,241.90
03/01/24	-	-	181,356.15	28,639.50	209,995.65	209,995.65	-
09/01/24	968,000.00	0.880%	181,356.15	28,639.50	209,995.65	1,177,995.65	1,387,991.30
03/01/25	-	-	177,096.95	27,187.50	204,284.45	204,284.45	-
09/01/25	980,000.00	1.010%	177,096.95	27,187.50	204,284.45	1,184,284.45	1,388,568.90
03/01/26	-	-	172,147.95	25,717.50	197,865.45	197,865.45	-
09/01/26	993,000.00	1.120%	172,147.95	25,717.50	197,865.45	1,190,865.45	1,388,730.90
03/01/27	-	-	166,587.15	24,228.00	190,815.15	190,815.15	-
09/01/27	1,007,000.00	1.280%	166,587.15	24,228.00	190,815.15	1,197,815.15	1,388,630.30
03/01/28	-	-	160,142.35	22,717.50	182,859.85	182,859.85	-
09/01/28	1,023,000.00	1.420%	160,142.35	22,717.50	182,859.85	1,205,859.85	1,388,719.70
03/01/29	-	-	152,879.05	21,183.00	174,062.05	174,062.05	-
09/01/29	1,040,000.00	1.570%	152,879.05	21,183.00	174,062.05	1,214,062.05	1,388,124.10
03/01/30	-	-	144,715.05	19,623.00	164,338.05	164,338.05	-
09/01/30	1,060,000.00	1.630%	144,715.05	19,623.00	164,338.05	1,224,338.05	1,388,676.10
03/01/31	-	-	136,076.05	18,033.00	154,109.05	154,109.05	-
09/01/31	1,080,000.00	1.670%	136,076.05	18,033.00	154,109.05	1,234,109.05	1,388,218.10
03/01/32	-	-	127,058.05	16,413.00	143,471.05	143,471.05	-
09/01/32	1,101,000.00	1.860%	127,058.05	16,413.00	143,471.05	1,244,471.05	1,387,942.10
03/01/33	-	-	116,818.75	14,761.50	131,580.25	131,580.25	-
09/01/33	1,125,000.00	2.020%	116,818.75	14,761.50	131,580.25	1,256,580.25	1,388,160.50
03/01/34	-	-	105,456.25	13,074.00	118,530.25	118,530.25	-
09/01/34	1,151,000.00	2.140%	105,456.25	13,074.00	118,530.25	1,269,530.25	1,388,060.50
03/01/35	-	-	93,140.55	11,347.50	104,488.05	104,488.05	-
09/01/35	1,179,000.00	2.260%	93,140.55	11,347.50	104,488.05	1,283,488.05	1,387,976.10
03/01/36	-	-	79,817.85	9,579.00	89,396.85	89,396.85	-
09/01/36	1,210,000.00	2.350%	79,817.85	9,579.00	89,396.85	1,299,396.85	1,388,793.70
03/01/37	-	-	65,600.35	7,764.00	73,364.35	73,364.35	-
09/01/37	1,242,000.00	2.430%	65,600.35	7,764.00	73,364.35	1,315,364.35	1,388,728.70
03/01/38	-	-	50,510.05	5,901.00	56,411.05	56,411.05	-
09/01/38	1,275,000.00	2.500%	50,510.05	5,901.00	56,411.05	1,331,411.05	1,387,822.10
03/01/39	-	-	34,572.55	3,988.50	38,561.05	38,561.05	-
09/01/39	1,311,000.00	2.570%	34,572.55	3,988.50	38,561.05	1,349,561.05	1,388,122.10
03/01/40	-	-	17,726.20	2,022.00	19,748.20	19,748.20	-
09/01/40	1,348,000.00	2.630%	17,726.20	2,022.00	19,748.20	1,367,748.20	1,387,496.40
	<u>21,000,000.00</u>		<u>4,816,911.00</u>	<u>685,359.00</u>	<u>5,502,270.00</u>	<u>26,502,270.00</u>	<u>26,502,270.00</u>

(1) Interest during construction is calculated based on the timing of expected draws and the overall weighted average loan rate of 1.790%.



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.

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

The Hon. Jorge O. Elorza  
Mayor

Ricky Caruolo  
General Manager

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

**BOARD OF DIRECTORS**

Xaykham Khamsyvoravong  
Chairperson

Joseph D. Cataldi  
Vice Chairperson

Michael J. Correia  
Councilperson

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, it is the intent of the Board to borrow funds in an amount, not to exceed nineteen million, one hundred thousand dollars (\$21,000,000.00) 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 20, 2021 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

An EPA WaterSense Partner


**(401) 521-6300**


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Providence, RI 02907

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Xaykham Khamsyvoravong, Chairman  
Providence Water Supply Board

  
Carissa R. Richard, Secretary  
Providence Water Supply Board

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

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

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

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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	12-34
Required Supplementary Information:	
Schedule of Changes in the Net Pension Liability and Related Ratios	35
Schedule of Employer Contributions	36
Schedule of Investment Returns	37
Schedule of Changes in the Total OPEB Liability and Related Ratios	38
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>	39-40



## **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, 2020, 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 audit. We conducted our audit 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 auditor considers 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 financial position of the Water Supply Board as of June 30, 2020 and the respective changes in its financial position and its cash flows for the year 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, 2020 and 2019, 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 Matter**

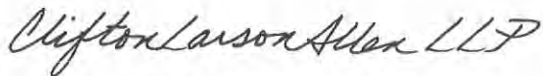
The financial statements as of June 30, 2019 were audited by Blum, Shapiro & Company, P.C., whose partners and staff joined CliftonLarsonAllen LLP as of January 1, 2021 and has subsequently ceased operations. Blum, Shapiro & Company, P.C.'s report dated January 27, 2020 expressed an unmodified opinion on those statements.

## **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 March 1, 2021, 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.



**CliftonLarsonAllen LLP**

Cranston, Rhode Island  
March 1, 2021



**PROVIDENCE WATER SUPPLY BOARD  
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020 AND 2019**

---

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, 2020 and 2019.

**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, 2020 AND 2019**

---

**Condensed Financial Information**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total current assets	\$ 43,603,728	\$ 48,323,882	\$ 58,575,820
Total long-term assets	<u>451,775,332</u>	<u>441,096,391</u>	<u>406,430,789</u>
Total assets	<u>495,379,060</u>	<u>489,420,273</u>	<u>465,006,609</u>
Deferred outflows of resources	<u>10,783,558</u>	<u>3,396,558</u>	<u>3,418,884</u>
Total current liabilities	14,935,258	14,062,833	13,098,064
Total long-term liabilities	<u>193,970,785</u>	<u>189,514,439</u>	<u>176,556,035</u>
Total liabilities	<u>208,906,043</u>	<u>203,577,272</u>	<u>189,654,099</u>
Deferred inflows of resources	<u>5,776,081</u>	<u>3,562,081</u>	<u>3,256,637</u>
Net position:			
Net investment in capital assets	336,524,362	319,818,541	294,002,639
Restricted fund	28,893,135	33,525,802	43,396,562
Unrestricted fund	<u>(73,937,003)</u>	<u>(67,666,865)</u>	<u>(61,884,444)</u>
Total Net Position	<u>\$ 291,480,494</u>	<u>\$ 285,677,478</u>	<u>\$ 275,514,757</u>
Total operating revenue	<u>\$ 69,757,831</u>	<u>\$ 72,330,415</u>	<u>\$ 75,085,420</u>
Total operating expenses	51,323,351	49,998,732	46,380,902
Depreciation	<u>11,712,793</u>	<u>9,429,564</u>	<u>9,696,365</u>
Total operating expenses including depreciation	<u>63,036,144</u>	<u>59,428,296</u>	<u>56,077,267</u>
Operating income	6,721,687	12,902,119	19,008,153
Nonoperating expense	(1,441,472)	(3,655,366)	(1,943,854)
Capital grants and contributions	<u>522,801</u>	<u>915,968</u>	<u>4,245,111</u>
Change in Net Position	<u>\$ 5,803,016</u>	<u>\$ 10,162,721</u>	<u>\$ 21,309,410</u>

**PROVIDENCE WATER SUPPLY BOARD  
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020 AND 2019**

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**Financial Highlights**

During the fiscal year 2020, the Water Supply Board had operating revenues that exceeded operating expenses by \$5.8 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 \$495.4 million, up \$6.0 million from last year's total assets of \$489.4 million. Current assets, principally cash, decreased by \$4.7 million, and net plant increased by \$10.7 million.

The Water Supply Board's net position totaled \$291.5 million at June 30, 2020, an increase of \$5.8 million from June 30, 2019. 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 \$6.8 million, net non-operating expenses of \$1.5 million, and capital contributions of \$0.5 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 total operating revenues were \$69.8 million for fiscal year 2020 which was a \$2.5 million or 3.51% decrease over the prior year. The primary reason for the decrease is the continued decline in consumption across all customer classes as well as the economic impact of the COVID-19 pandemic, which impacted business activity in the fourth quarter. Total operating expenses of the water system amounted to \$63.0 million which was a \$3.9 million increase over the prior year's amount of \$59.4 million. The increase is primarily attributable to increases in pension expenses and depreciation.

The Water Supply Board's total operating revenues were \$72.3 million for fiscal year 2019, which was \$2.7 million less than fiscal year 2018. Total operating expenses of the water system amounted to \$59.4 million, which was a slight increase over the prior year's amount of \$56.1 million. Fiscal year 2019 non-operating revenue consisted of interest income amounting to \$0.5 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 \$3.7 million was principally interest expense on long-term debt. Capital grants and contributions in fiscal year 2019 amounted to \$0.9 million.

**PROVIDENCE WATER SUPPLY BOARD  
 (AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 JUNE 30, 2020 AND 2019**

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**Capital Assets and Debt Administration**

**Capital Assets:**

At June 30, 2020, the Water Supply Board had \$451 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 \$10.8 million, or 2.5%, over the prior year.

At June 30, 2019, the Water Supply Board had \$440.2 million invested in various capital assets. This amount represented a net increase of \$34.8 million, or 8.6%, over the previous year.

**Major project expenditures in fiscal year 2020 included (in millions):**

* Water Main Rehabilitation (6" - 12")	\$	18.29
* Greenville Ave Pump Station Replacement	\$	1.93
* 102" Inspection and Rehabilitation	\$	1.90
* Treatment Plant Building Improvements	\$	1.56
* Lead Service Replacements	\$	1.16
* Ashby St Pump Station Replacement	\$	1.09
* Transmission System Improvements	\$	1.07
* Orthophosphate - Storage/Transfer/Feed System	\$	1.00
* Lime Feeder Replacement	\$	0.92
* Distribution System Improvements	\$	0.89
* Pump Station Improvements	\$	0.48
* Fire Hydrant Replacements	\$	0.35
* Support System and Facilities Improvements	\$	0.34
* Large Dam Inspections and Improvements	\$	0.29
* Sand Filter Replacement	\$	0.28
* GENERAL PLANNING	\$	0.26
* Cyber Security and IT Equipment for Virtualization	\$	0.23
* Asset Management	\$	0.14
* Water Main Tie Ins	\$	0.09
* Treatment Process Studies	\$	0.07
* Storage Tanks Inspections / Improvements	\$	0.06
* Renewable Energy Projects	\$	0.05
* Records Management Upgrades (GIS/AM)	\$	0.04
* Raw Water Transmission Supply Feasibility Assessment	\$	0.04
* Unidirectional Flushing (UDF) Program Development	\$	0.03

The Water Supply Board's fiscal year 2020 capital budget included project expenditures of \$38.89 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, 2020 AND 2019**

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**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, 2020, 317 loans had been executed in the amount of approximately \$1,250,000. A 0% interest loan for \$1 million as well as a second loan for \$3 million from the RIIB allowed Providence Water to capitalize these loans at an accelerated rate.

**Debt:**

At June 30, 2020, the Water Supply Board had \$114.5 million in bonds and notes outstanding versus \$120.4 million in the previous year. This represented a decrease of \$5.9 million or 4.9%. This is due to the retirement of previously issued 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. 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.

**Subsequent Events**

In August 2020, the Public Utilities Commission approved new rates effective August 27, 2020. This filing anticipated three (3) years of rate increases.

The overall rate increase for the first year was 16.82%. The increase for the subsequent two (2) years are 5.07% and 3.85%, respectively.

**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, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Assets:		
Current unrestricted assets:		
Cash and cash equivalents	\$ 3,100,343	\$ 1,398,434
Accounts receivable, net of allowance for uncollectible accounts of \$1,726,534 in 2020 and \$1,290,488 in 2019	7,047,304	6,361,146
Accounts receivable - unbilled	2,503,355	3,570,344
Inventory	555,429	429,749
Other assets	231,941	52,174
Total current unrestricted assets	<u>13,438,372</u>	<u>11,811,847</u>
Current restricted assets:		
Cash and cash equivalents	28,974,483	35,698,462
Accounts receivable	1,016,907	672,942
Notes receivable - short term	173,966	140,631
Total current restricted assets	<u>30,165,356</u>	<u>36,512,035</u>
Total current assets	<u>43,603,728</u>	<u>48,323,882</u>
Capital assets:		
Land	25,382,574	25,220,803
Building and improvements	143,887,545	123,990,544
Improvements other than buildings	439,301,774	412,532,325
Machinery and equipment	42,100,953	40,598,540
Scituate Reservoir Project	18,681,695	18,681,695
Construction in progress	41,186,167	66,933,822
	<u>710,540,708</u>	<u>687,957,729</u>
Less accumulated depreciation and amortization	259,491,112	247,778,320
Total capital assets, net	<u>451,049,596</u>	<u>440,179,409</u>
Other noncurrent assets:		
Notes receivable - long term	<u>725,736</u>	<u>916,982</u>
Deferred Outflows of Resources:		
OPEB-related deferred outflows of resources	1,669,277	903,277
Pension-related deferred outflows of resources	9,114,281	2,493,281
Total deferred outflows of resources	<u>10,783,558</u>	<u>3,396,558</u>
Total assets and deferred outflows of resources	<u>506,162,618</u>	<u>492,816,831</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 NET POSITION (CONTINUED)  
JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Liabilities:		
Current:		
Current portion of long-term debt	\$ 7,209,834	\$ 6,269,032
Due to City of Providence General Fund	1,124,334	770,963
Accounts payable	1,111,364	1,369,261
Accrued liabilities	3,491,769	2,667,344
	<u>12,937,301</u>	<u>11,076,600</u>
Amounts to be paid from current restricted assets:		
Due to Water Resources Board	196,467	215,859
Accounts payable	1,801,490	2,770,374
	<u>1,997,957</u>	<u>2,986,233</u>
Total current liabilities	<u>14,935,258</u>	<u>14,062,833</u>
Noncurrent liabilities:		
General revenue bonds	107,315,400	114,091,836
Net pension liability	59,590,496	51,964,714
Total OPEB liability	27,064,889	23,457,889
Total noncurrent liabilities	<u>193,970,785</u>	<u>189,514,439</u>
Total liabilities	<u>208,906,043</u>	<u>203,577,272</u>
Deferred Inflows of Resources:		
OPEB-related deferred inflows of resources	2,775,701	2,948,701
Pension-related deferred inflows of resources	3,000,380	613,380
Total deferred inflows of resources	<u>5,776,081</u>	<u>3,562,081</u>
Net Position:		
Net investment in capital assets	336,524,362	319,818,541
Restricted	28,893,135	33,525,802
Unrestricted	<u>(73,937,003)</u>	<u>(67,666,865)</u>
Total Net Position	<u>\$ 291,480,494</u>	<u>\$ 285,677,478</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, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Operating Revenues:		
Charges for services:		
Water sales:		
General customers	\$ 49,277,118	\$ 51,288,398
Other local water suppliers	15,571,499	15,852,358
Fire protection services	2,720,260	2,719,310
Maintenance charges and other revenue	2,188,954	2,470,349
Total operating revenues	<u>69,757,831</u>	<u>72,330,415</u>
Operating Expenses:		
Source of supply	2,885,503	2,865,212
Pumping operations	841,726	859,524
Water treatment	8,485,942	8,615,608
Transmission and distribution	6,400,982	6,165,986
Charge for services provided by other City departments	839,167	839,167
Customer accounts and service	2,762,129	3,990,544
Administrative and general	21,211,080	19,075,957
Depreciation	11,712,793	9,429,564
Property taxes - other local governments	7,896,822	7,586,734
Total operating expenses	<u>63,036,144</u>	<u>59,428,296</u>
Operating Income	<u>6,721,687</u>	<u>12,902,119</u>
Nonoperating Revenue (Expense):		
Interest income	1,407,353	505,659
Interest expense and other	(3,123,460)	(3,059,841)
Gain (loss) on sale of asset	274,635	(1,101,184)
Net nonoperating expense	<u>(1,441,472)</u>	<u>(3,655,366)</u>
Capital Grants and Contributions	<u>522,801</u>	<u>915,968</u>
Change in Net Position	5,803,016	10,162,721
Net Position - Beginning of Year	<u>285,677,478</u>	<u>275,514,757</u>
Net Position - End of Year	<u>\$ 291,480,494</u>	<u>\$ 285,677,478</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, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 69,581,595	\$ 72,673,536
Payments to vendors	(24,376,521)	(21,733,004)
Payments to employees	(21,047,770)	(22,782,502)
Net cash provided by operating activities	<u>24,157,304</u>	<u>28,158,030</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(22,582,979)	(45,319,840)
Interest and issuance costs paid on debt	(3,123,460)	(3,059,841)
Proceeds from bond issuance	569,675	15,130,326
Principal payments on long-term debt	(6,405,309)	(6,157,136)
Proceeds from note receivable	157,911	118,993
Capital grants	522,801	915,968
Net cash used in capital and related financing activities	<u>(30,861,361)</u>	<u>(38,371,530)</u>
Cash Flows from Investing Activities:		
Investment income	1,407,353	505,659
Proceeds from sale of assets	274,634	-
Net cash provided by investing activities	<u>1,681,987</u>	<u>505,659</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(5,022,070)	(9,707,841)
Cash and Cash Equivalents - Beginning of Year	<u>37,096,896</u>	<u>46,804,737</u>
Cash and Cash Equivalents - End of Year	<u>\$ 32,074,826</u>	<u>\$ 37,096,896</u>
Unrestricted Cash and Cash Equivalents	\$ 3,100,343	\$ 1,398,434
Restricted Cash and Cash Equivalents	<u>28,974,483</u>	<u>35,698,462</u>
	<u>\$ 32,074,826</u>	<u>\$ 37,096,896</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 6,721,687	\$ 12,902,119
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	11,712,793	9,429,564
Provision for doubtful accounts	(436,046)	(205,964)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	472,912	758,055
(Increase) decrease in inventories	(125,680)	(16,818)
(Increase) decrease in other assets	(179,767)	13,321
(Increase) decrease in deferred outflows of resources	(7,387,000)	22,326
Increase (decrease) in due to other funds	353,371	114,403
Increase (decrease) in accounts payable and accrued expenses	(421,748)	658,759
Increase (decrease) net pension liability	7,625,782	1,183,932
Increase (decrease) net OPEB liability	3,607,000	2,992,889
Increase (decrease) in deferred inflows of resources	<u>2,214,000</u>	<u>305,444</u>
Net Cash Provided by Operating Activities	<u>\$ 24,157,304</u>	<u>\$ 28,158,030</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**

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**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, 2020, 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**

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**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**

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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 2020, the \$91,280 in fees that had been collected was recognized by the Water Supply Board as revenue. In 2019, the \$87,087 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, 2020 and 2019, 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, 2020 and 2019, 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**

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**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.

**Net Pension Liability**

The net pension liability is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service (total pension liability), net of the pension plan's fiduciary net position. The pension plan's fiduciary net position is determined using the same valuation methods that are used by the pension plan for purposes of preparing its statement of fiduciary net position. The net pension liability is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period. Investments are reported at fair value.

**Total Other Postemployment Benefits Other than Pensions (OPEB) Liability**

The total OPEB liability is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service. The total OPEB liability is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year and no later than the end of the current fiscal year, consistently applied from period to period.

**Long-Term Obligations**

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**Fund Equity**

In the government-wide and proprietary fund financial statements, net position is classified in the following categories:

**Net Investment in Capital Assets**

This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

**Restricted Net Position**

This category represents the net position of the City, which are restricted by outside parties or enabling legislation.

**Unrestricted Net Position or Deficits**

This category represents the net position of the City, which do not meet the definition of "restricted" or "invested in capital assets, net of related debt". Deficits require future funding.

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

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**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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 3,100,343	\$ 1,398,434
Restricted cash and cash equivalents	<u>28,974,483</u>	<u>35,698,462</u>
	<u>\$ 32,074,826</u>	<u>\$ 37,096,896</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, 2020 of \$32,074,826, \$250,000 is covered by Federal Deposit Insurance Corporation (FDIC) insurance and \$2,850,343 of the balance is covered by the collateral agreements. Of the cash and cash equivalent balances at June 30, 2019 of \$37,096,896, \$250,000 is covered by FDIC insurance and \$1,148,434 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, 2020:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 25,220,803	\$ 161,771	\$ -	\$ 25,382,574
Scituate Reservoir Project	18,681,695	-	-	18,681,695
Construction in progress	<u>66,933,822</u>	<u>40,034,511</u>	<u>65,782,166</u>	<u>41,186,167</u>
Total capital assets not being depreciated	<u>110,836,320</u>	<u>40,196,282</u>	<u>65,782,166</u>	<u>85,250,436</u>
Capital assets being depreciated:				
Buildings and improvements	123,990,544	19,897,001	-	143,887,545
Sewer and infrastructure	412,532,325	26,769,449	-	439,301,774
Equipment	<u>40,598,540</u>	<u>1,502,413</u>	<u>-</u>	<u>42,100,953</u>
Total capital assets being depreciated	<u>577,121,409</u>	<u>48,168,863</u>	<u>-</u>	<u>625,290,272</u>
Less accumulated depreciation for:				
Buildings and improvements	79,861,371	4,806,020	-	84,667,391
Sewer and infrastructure	136,853,384	5,445,539	-	142,298,923
Equipment	<u>31,063,565</u>	<u>1,461,233</u>	<u>-</u>	<u>32,524,798</u>
Total accumulated depreciation	<u>247,778,320</u>	<u>11,712,792</u>	<u>-</u>	<u>259,491,112</u>
Total capital assets being depreciated, net	<u>329,343,089</u>	<u>36,456,071</u>	<u>-</u>	<u>365,799,160</u>
Capital Assets, Net	<u>\$ 440,179,409</u>	<u>\$ 76,652,353</u>	<u>\$ 65,782,166</u>	<u>\$ 451,049,596</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, 2019:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Ending Balance</u>
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>

**5. LONG-TERM DEBT**

The following is the long-term debt activity as of June 30, 2020:

	<b>2020</b>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
Revenue bonds	\$ 120,360,868	\$ 569,675	\$ 6,405,309	\$ 114,525,234	\$ 7,209,834
Net pension liability	51,964,714	7,625,782		59,590,496	
Total OPEB liability	<u>23,457,889</u>	<u>3,607,000</u>		<u>27,064,889</u>	
Long-Term Liabilities	<u>\$ 195,783,471</u>	<u>\$ 11,802,457</u>	<u>\$ 6,405,309</u>	<u>\$ 201,180,619</u>	<u>\$ 7,209,834</u>



**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, 2019:

	2019				Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
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	<u>20,465,000</u>	<u>2,992,889</u>		<u>23,457,889</u>	
Long-Term Liabilities	<u>\$ 182,633,460</u>	<u>\$ 19,307,147</u>	<u>\$ 6,157,136</u>	<u>\$ 195,783,471</u>	<u>\$ 6,269,032</u>

The following is a summary of bonds and notes outstanding at June 30, 2020 and 2019:

Description	Amount of Interest Rate (%)	Outstanding June 30, 2020	Outstanding June 30, 2019
Safe Drinking Water Bonds (CWFA FY2002)	3.61%	\$ 329,492	\$ 485,996
Scituate Reservoir Project (PPBA FY 2011)	5.40%		-
Safe Drinking Water Bonds (CWFA FY2008)	2.85%	20,324,000	21,995,000
Safe Drinking Water Bonds (CWFA FY2010)	.0410% to 3.14%	5,806,250	6,237,250
Safe Clean Water Bonds (CWFA FY2012)	.072% to 3.26%	2,093,000	2,228,000
Safe Clean Water Bonds (CWFA FY2013)	.019% - 2.53%	3,109,000	3,296,000
Safe Drinking Water Bonds (CWFA FY2013)	.022% - 2.63%	19,699,000	20,785,000
Safe Drinking Water Bonds (CWFA FY2013)	.022% - 3.01%	6,311,000	6,656,000
Safe Drinking Water Bonds (CWFA FY2015)	.022% - 3.01%	26,035,000	27,373,000
Safe Drinking Water Bonds (CWFA FY2017)	.022% to 1.95%	14,840,095	15,560,095
Safe Drinking Water Bonds (RIIB- FY2018)	0.00%	640,572	350,615
Safe Drinking Water Bonds (CWFA FY2019)	.022% to 1.95%	14,699,000	14,700,000
East Smithfield Water District DWSRF Bonds Series 2009A (RIIB- FY2009 Bond)	3.51%	113,667	135,172
East Smithfield Water District DWSRF Loan Series 2009A (RIIB- FY2009 Loan)	3.00%	100,000	110,000
East Smithfield Water District DWSRF Bond Series 2014A (RIIB- FY2014 Bond)	1.30% - 3.43%	<u>425,158</u>	<u>448,740</u>
Total		<u>\$ 114,525,234</u>	<u>\$ 120,360,868</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, 2020 of long-term debt are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>ARRA / SRF Principal Forgiveness</u>	<u>Interest and Fees</u>	<u>Total</u>
2021	\$ 7,209,834	\$ (341,025)	\$ 3,018,265	\$ 9,887,074
2022	7,283,456	(348,269)	2,864,970	9,800,157
2023	7,078,605	(356,560)	2,701,330	9,423,375
2024	7,194,757	(365,004)	2,530,072	9,359,825
2025	7,447,815	(374,788)	1,716,791	8,789,818
2026-2030	39,950,159	(1,996,727)	8,543,983	46,497,415
2031-2035	29,929,513	(1,616,914)	3,376,737	31,689,336
2036-2040	8,431,095	(229,407)	410,368	8,612,056
Total	\$ <u>114,525,234</u>	\$ <u>(5,628,694)</u>	\$ <u>25,162,516</u>	\$ <u>134,059,056</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, 2020 and 2019. 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, 2020 and 2019 totaled \$1,124,334 and \$770,963, 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, 2020 and 2019 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**

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**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 2020, the Water Supply Board rehabilitated 11.8 miles at a cost of approximately \$18.3 million.

During FY 2020, the Water Supply Board replaced 625 public side lead services at a cost of \$1,158,609. 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 19,293 lead services to the end of fiscal year 2020 (June 30, 2020) at cost of \$61,256,442. 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 2020, 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. Additional information about the plan can be obtained from the City of Providence's Finance Department at City Hall or at [www.providenceri.gov/finance](http://www.providenceri.gov/finance).

Membership of the ERS plan for the Water Supply Board consisted of the following at June 30, 2019, the date of the latest actuarial valuation:

Inactive plan members or beneficiaries currently receiving benefits	132
Active employees	230
	<hr/>
Total	362
	<hr/> <hr/>

The total pension liability was determined by an actuarial valuation as of July 1, 2019 and rolled forward to June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.00% per year, before reflecting increases due to longevity
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

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

---

For the year ended June 30, 2020, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was -2.00%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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, 2020 are summarized as follows:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic equity	45.25 %	6.15 %
International developed markets equity	12.75	6.78
Core fixed income	26.00	1.11
Hedge fund, GTAA, Risk parity	16.00	3.19
	100.00 %	

**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, 2020 was \$4,083,000.

**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."

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

**Net Pension Liability**

The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Net pension liability is allocated to the Water Supply Board based on a proportion of covered payroll.

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

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Total pension liability	\$ 80,502,639	\$ 70,014,956
Plan fiduciary net position	<u>20,912,143</u>	<u>18,050,242</u>
Net Pension Liability	<u>\$ 59,590,496</u>	<u>\$ 51,964,714</u>
Plan fiduciary net position as a percentage of the total pension liability	25.98%	25.78%

**Changes in the Net Pension Liability for the Water Supply Board**

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
	<u>(a)</u>	<u>(b)</u>	<u>(a)-(b)</u>
Balances as of July 1, 2019	\$ 70,014,956	\$ 18,050,242	\$ 51,964,714
Changes for the year:			
Service cost	995,246		995,246
Interest on total pension liability	5,175,617		5,175,617
Differences between expected and actual experience	(494,321)		(494,321)
Changes in assumptions	9,569,894		9,569,894
Employer contributions		4,083,000	(4,083,000)
Member contributions		604,613	(604,613)
Net investment income		(233,787)	233,787
Benefit payments, including refund to employee contributions	(4,758,753)	(1,582,761)	(3,175,992)
Administrative expenses		(9,164)	9,164
Net changes	<u>10,487,683</u>	<u>2,861,901</u>	<u>7,625,782</u>
Balances as of June 30, 2020	<u>\$ 80,502,639</u>	<u>\$ 20,912,143</u>	<u>\$ 59,590,496</u>

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

	Increase (Decrease)		
	Total Pension	Plan Fiduciary	Net Pension
	Liability (a)	Net Position (b)	Liability (a)-(b)
Balances as of July 1, 2018	\$ 68,687,560	\$ 17,906,778	\$ 50,780,782
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>\$ 70,014,956</u>	<u>\$ 18,050,242</u>	<u>\$ 51,964,714</u>

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2019
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	7.00%, net of pension plan investment and administrative expenses, including inflation.
Inflation rate	3.00%
Projected salary increases	3.00% 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**

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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, 2037, 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 3.0% per year. Future COLAs will not exceed 3% per year.

Mortality rates were based on the following:

Pre-Retirement

- Class A Healthy: Pub-2010 General Employee Amount-Weighted Mortality Tables projected generationally using Scale MP-2019.
- Class B Health: Pub-2010 Safety Employee Amount-Weighted Mortality Tables projected generationally using Scale MP-2019.

Post Retirement

- Class A Healthy Retiree: Pub-2010 General Healthy Retiree Amount-Weighted Mortality Tables projected generationally using Scale MP-2019.
- Class B Health Retiree: Pub-2010 Safety Healthy Retiree Amount-Weighted Mortality Tables projected generationally using Scale MP-2019.
- Class A Beneficiary: Pub-2010 General Contingent Survivor Amount-Weighted Mortality Tables projected generationally using Scale MP-2019.
- Class B Beneficiary: Pub-2010 Safety Contingent Survivor Amount-Weighted Mortality Tables projected generationally using Scale MP-2019.
- Class A Disabled Retiree: Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Tables projected generationally using Scale MP-2019.
- Class B Disabled Retiree: Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Tables projected generationally using Scale MP-2019.



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

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**Discount Rate**

The discount rate used to measure the total pension liability at June 30, 2020 and 2019 was 7.00% and 8.00%, respectively. 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 7.00%, 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 (6.00%) or 1 percentage point higher (8.00%) than the current rate at June 30, 2020:

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Net Pension Liability	\$ 69,013,697	\$ 59,590,496	\$ 51,819,462

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:

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

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

For the years ended June 30, 2020 and 2019, the Water Supply Board recognized pension expense of \$7,474,913 and \$6,001,525, respectively.

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

At June 30, 2020, 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	\$ 278,030	\$ 370,639
Changes of assumptions	7,177,421	
Changes in proportion and differences between employer contributions and proportionate share of contributions	155,535	2,629,741
Net difference between projected and actual earning on pension plan investments	<u>1,503,295</u>	
	<u>\$ 9,114,281</u>	<u>\$ 3,000,380</u>

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	<u>641,217</u>	
	<u>\$ 2,493,281</u>	<u>\$ 613,380</u>

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**

2021	\$ 1,850,296
2022	1,990,090
2023	1,985,225
2024	<u>288,290</u>
	<u>\$ 6,113,901</u>

**Payable to the Plan**

At June 30, 2020, the Water Supply Board had made full payment of the required pension contribution for the year ended June 30, 2020.

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

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**10. POST EMPLOYMENT BENEFITS**

The following disclosure presents information regarding the City's Post-Employment Medical Benefit Plan with certain information being specific to Providence Water Supply Board's financial statements.

**Plan Description**

The City'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 City benefit participants as of July 1, 2018:

Active members	4,299
Retirees	<u>3,878</u>
Total	<u><u>8,177</u></u>

**Total OPEB Liability**

For the years ended June 30, 2020 and 2019, the Water Supply Board recognized OPEB liability of \$27,064,889 and \$23,457,889, respectively. The City has not accumulated any assets in a fiduciary trust for payment of benefits.

**Actuarial Assumptions and Other Inputs**

The total OPEB liability at June 30, 2020 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	Non-Medicare medical: 7.0% decreasing by 0.25% for 10 years to an ultimate level of 4.5% per year

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

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Medicare medical: 6.0% decreasing by 0.25% for 6 years to an ultimate level of 4.5% per year

Prescription drug: 9.0% decreasing by 0.25% for 18 years to an ultimate level of 4.5% per year

Part B: 4.5%

Administrative: 3.0%

Mortality rates

Pre-Retirement

Class A Heathy: Pub-2010 General Employee Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019

Class B Heathy: Pub-2010 Safety Employee Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019

Teachers: Pub-2010 Teacher Employee Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019

Post-Retirement

Class A Heathy: Pub-2010 General Healthy Retiree Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019

Class B Heathy: Pub-2010 Safety Healthy Retiree Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019

Teachers Heathy: Pub-2010 Teacher Healthy Retiree Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019

Class A Beneficiaries: Pub-2010 General Contingent Survivor Retiree Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019

Class B Beneficiaries: Pub-2010 Safety Contingent Survivor Retiree Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019

Teachers Beneficiaries: Pub-2010 Teacher Contingent Survivor Retiree Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019

Class A Disabled Retirees: Pub-2010 Non-Safety Disabled Retirees Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019

Class B Disabled Retirees: Pub-2010 Safety Disabled Retirees Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019

Teachers Disabled Retirees: Pub-2010 Non-Safety Disabled Retirees Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019

**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**

	Increase (Decrease)		
	Governmental	Business-Type	Total OPEB
	Activities	Activities	
	Liability	Liability	Liability
	(a)	(b)	(a)+(b)
(amounts shown in thousands)			
Balances as of July 1, 2019	\$ 1,039,243	\$ 23,458	\$ 1,062,701
Changes for the year:			
Service cost	25,508	576	26,084
Interest on total OPEB liability	40,583	916	41,499
Employer contributions	(32,450)	(755)	(33,205)
Change of assumptions	24,433	551	24,984
Change in proportionate share	(2,319)	2,319	
Net changes	<u>55,755</u>	<u>3,607</u>	<u>59,362</u>
Balances as of June 30, 2020	<u>\$ 1,094,998</u>	<u>\$ 27,065</u>	<u>\$ 1,122,063</u>

Changes of assumptions reflect the following:

- The mortality, disability, withdrawal, and retirement assumptions for Class A and the mortality assumptions for Class B were updated to be consistent with The Employee Retirement System of the City of Providence Actuarial Experience Review for July 1, 2015 through June 30, 2018, dated December 14, 2020, completed by Segal.
- The disability, withdrawal, and retirement assumptions for teachers were updated to be consistent with the Employees' Retirement System of Rhode Island Actuarial Experience Investigation as of June 30, 2019, dated May 6, 2020 completed by Gabriel, Roeder Smith & Company.
- The mortality assumptions for teachers were updated to the Pub-2010 Teacher Headcount-Weighted mortality tables released by the Society of Actuaries in 2019.
- The discount rate was lowered from 3.87% as of June 30, 2018 to 3.50% as of June 30, 2019.
- The impact of the excise tax on high cost health plans (part of the Patient Protection and Affordable Care Act) was removed as the tax was repealed effective December 20, 2019.

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

	Increase (Decrease)		
	Governmental	Business-Type	Total OPEB
	Activities	Activities	
	Liability	Liability	Liability
(a)	(b)	(a)+(b)	
(amounts shown in thousands)			
Balances as of July 1, 2018	\$ 1,007,294	\$ 20,465	\$ 1,027,759
Changes for the year:			
Service cost	23,064	469	23,533
Interest on total OPEB liability	36,376	739	37,115
Experience (gain) and loss	48,127	978	49,105
Employer contributions	(28,748)	(607)	(29,355)
Change of assumptions	(44,551)	(905)	(45,456)
Change in proportionate share	(2,319)	2,319	
Net changes	31,949	2,993	34,942
Balances as of June 30, 2019	\$ 1,039,243	\$ 23,458	\$ 1,062,701

Changes of assumptions reflect the following:

- The per capita health costs were updated.
- Contributions were updated to reflect new CBA agreements.
- The medical and prescription drug trend assumptions were updated.
- The discount rate at June 30, 2018 was 3.87% compared to the June 30, 2017 rate of 3.58%
- The excise tax on high cost health plans beginning in 2022 was revised.
- The salary increase assumption and demographic assumptions for teachers were updated to be consistent with the Employees' Retirement System of Rhode Island Actuarial Valuation Report as of June 30, 2018, dated December 18, 2018, completed by Gabriel, Roeder Smith & Company.

**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 (2.50%) or 1 percentage point higher (4.50%) than the current discount rate at June 30, 2020:

	Current Discount Rate		
	1% Decrease	Rate	1% Increase
(amounts shown in thousands)			
Total OPEB Liability	\$ 1,330,237	\$ 1,122,063	\$ 960,268

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

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 Discount Rate</u>	<u>1% Increase</u>
(amounts shown in thousands)			
Total OPEB Liability	\$ 1,257,665	\$ 1,062,701	\$ 910,783

**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, 2020:

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
(amounts shown in thousands)			
Total OPEB Liability	\$ 943,153	\$ 1,122,063	\$ 1,354,986

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 Cost Trend Rate</u>	<u>1% Increase</u>
(amounts shown in thousands)			
Total OPEB Liability	\$ 899,841	\$ 1,062,701	\$ 1,273,757

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

For the year ended June 30, 2020, the City recognized OPEB expense of \$48,429,956 and the Water Supply Board recognized OPEB expense of \$1,029,131. At June 30, 2020, the Water Supply Board 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	\$ 1,669,277	\$ 2,775,701

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

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For the year ended June 30, 2019, the City recognized OPEB expense of \$37,330,698 and the Water Supply Board recognized expense of \$824,032. At June 30, 2019, the Water Supply Board 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

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**

2021	\$ (263,007)
2022	(263,007)
2023	(263,007)
2024	(263,007)
2025	(54,396)
	<u>(1,106,424)</u>
	<u>\$ (1,106,424)</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 SEVEN FISCAL YEARS\*

	2020	2019	2018	2017	2016	2015	2014
Total pension liability:							
Service cost	\$ 995,246	\$ 979,926	\$ 980,977	\$ 1,017,119	\$ 941,053	\$ 854,182	\$ 893,162
Interest	5,175,617	5,396,418	5,258,402	5,172,289	5,130,041	5,509,989	4,946,549
Differences between expected and actual experience	(494,321)	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	9,569,894				3,063,805	40,391	
Benefit payments, including refunds of member contributions	(4,758,753)	(5,156,388)	(5,178,444)	(5,178,542)	(5,531,918)	(4,663,093)	(4,973,233)
Net change in total pension liability	10,487,683	1,327,396	871,171	409,512	7,274,938	1,820,722	866,478
Total pension liability - beginning	70,014,956	68,687,560	67,816,389	67,406,877	60,131,939	58,311,217	57,444,739
Total pension liability - ending	80,502,639	70,014,956	68,687,560	67,816,389	67,406,877	60,131,939	58,311,217
Plan fiduciary net position:							
Contributions - employer	4,083,000	4,180,000	3,828,000	3,636,754	3,615,102	3,212,354	2,945,209
Contributions - member	604,613	634,544	610,831	573,624	615,760	1,037,505	911,508
Net investment income	(233,787)	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	(1,582,761)	(5,426,927)	(5,178,444)	(5,178,542)	(5,531,918)	(4,663,093)	(4,973,233)
Administrative expense	(9,164)	(8,608)	(11,173)	(12,559)	(9,408)	(9,367)	(71,955)
Net change in plan fiduciary net position	2,861,901	143,464	392,933	472,850	177,589	(90,877)	21,967
Plan fiduciary net position - beginning	18,050,242	17,906,778	17,513,845	17,040,995	16,863,406	16,954,283	16,932,316
Plan fiduciary net position - ending	20,912,143	18,050,242	17,906,778	17,513,845	17,040,995	16,863,406	16,954,283
Net Pension Liability - Ending	\$ 59,590,496	\$ 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	25.98%	25.78%	26.07%	25.83%	25.28%	28.04%	29.08%
Covered payroll	\$ 13,591,633	\$ 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	438.44%	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 SEVEN FISCAL YEARS\*

	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 4,083,000	\$ 4,180,000	\$ 3,828,000	\$ 3,636,754	\$ 3,615,102	\$ 3,212,354	\$ 2,945,209
Contributions in relation to the actuarially determined contribution	4,083,000	4,180,000	3,828,000	3,636,754	3,615,102	3,212,354	2,945,209
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 13,591,633	\$ 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	30.04%	30.78%	27.76%	28.02%	27.60%	24.84%	24.75%

Notes to Schedule

Valuation date: July 1, 2019  
 Measurement date: June 30, 2020

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: 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: 21 years remaining as of July 1, 2019 (12 years remaining as of July 1, 2019 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: 3.00%
- Salary increases: 3.00% per year before reflecting increases due to longevity compensation
- Discount rate: 7.00%
- Investment rate of return: 7.00%, 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, 2037, 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% 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 SEVEN FISCAL YEARS\*

	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	-2.00%	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>2020</u>	<u>2019</u>
Total OPEB liability:		
Service cost	\$ 26,084,000	\$ 23,533,000
Interest on the total OPEB liability	41,499,000	37,115,000
Differences between expected and actual experience		49,105,000
Changes of assumptions	24,984,000	(45,456,000)
Benefit payments	<u>(33,205,000)</u>	<u>(29,355,000)</u>
Net change in total OPEB liability	59,362,000	34,942,000
Total OPEB liability - beginning	<u>1,062,701,000</u>	<u>1,027,759,000</u>
 Total OPEB Liability - Ending	 <u>\$ 1,122,063,000</u>	 <u>\$ 1,062,701,000</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, 2020, 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 March 1, 2021.

**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) as a basis for designing 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.

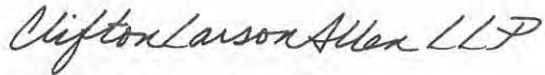
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Cranston, Rhode Island  
March 1, 2021