

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DIVISION OF PUBLIC UTILITIES AND CARRIERS
89 JEFFERSON BOULEVARD
WARWICK, RHODE ISLAND 02888**

IN RE: Narragansett Bay Commission :
 Application for Authority to Incur Debt : Docket No. D-21-13

REPORT AND ORDER

On September 2, 2021, the Narragansett Bay Commission (“NBC”), One Service Road, Providence, Rhode Island, filed an application with the Rhode Island Division of Public Utilities and Carriers (“Division”) seeking approval to enter into long-term debt and issue revenue bonds for an amount not to exceed \$45,000,000 to support a borrowing from the Rhode Island Infrastructure Bank.

In response to the application filing, the Division conducted a duly noticed public hearing on September 27, 2021. The hearing was conducted in the Division’s hearing room, located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances:

For the NBC:	Joseph A. Keough, Jr., Esq.
For the Division’s Advocacy Section:	Gregory Schultz, Esq. Special Assistant Attorney General

The NBC proffered pre-filed direct testimony from three witnesses in support of its application. The witnesses were identified as Ms. Karen L. Giebink, the NBC’s Chief Financial Officer and Mr. Stephen Maceroni, Director with PFM Financial Advisors, LLC (“PFM”).

Ms. Giebink testified that the NBC is requesting Division approval to enter into long-term debt and issue revenue bonds for an amount not to exceed \$45,000,000, that will be used to support a borrowing from the Rhode Island Infrastructure Bank (“RIIB”) and that the loan will be used to support the NBC’s capital improvement plan.¹

In support of the NBC’s petition, Ms. Giebink testified that the Division approved numerous applications from the NBC to enter into long-term debt and effectuate borrowings through the RIIB and its predecessor, the Rhode Island Clean Water Finance Agency.² She further related that the NBC has borrowed a total of \$663,673,210 from the RIIB and received \$12,396,592 in principal forgiveness related to those loans.³

Ms. Giebink next testified as to the structure of the loan compared to prior loans.⁴ She related that the NBC requested a modification to the traditional State Revolving Fund (“SRF”) loan structure in order to wrap the new debt around the NBC’s existing debt service to mitigate ratepayer impact. She stated that the interest is capitalized for two years and that, although loan amortization is set at the traditional 20 years, annual debt service is not level to eliminate spikes in total debt service.⁵ She further related that the NBC anticipates that the loan will be given at the traditional subsidy of 1/3 of the market rate with approximately \$1,000,000 of principal forgiveness.⁶

¹ NBC Exhibit 1, Giebink Testimony, p1.

² Ex. 1, Giebink, p. 2.

³ *Id.*

⁴ *Id.*

⁵ *Id.*

⁶ *Id.*

Ms. Giebink went on to testify as to the projects the NBC plans on funding with the proceeds of the loan.⁷ She stated that the NBC plans to spend the proceeds as follows: approximately \$17.4 million (39%) on the Bucklin Point Resiliency projects; approximately \$8.9 million (20%) on Field's Point Resiliency projects; approximately \$5.7 million (13%) on the Combined Sewage Overflow ("CSO") Phase III A projects; and the remaining \$12.4 million (28%) is allocated to smaller miscellaneous projects.⁸ She testified further that all projects are included on State of Rhode Island Department of Environmental Management's 2022 Project Priority List.

In her pre-filed direct testimony, Ms. Giebink stated that the NBC's existing rates generate sufficient revenues to meet the debt service and debt service coverage requirements associated with the proposed borrowing.⁹ She indicated that the NBC filed an application on October 10, 2018 (Docket 4890) with the Rhode Island Public Utilities Commission ("PUC") for new rates effective July 1, 2019. The PUC approved rates designed to generate a total revenue of \$106,594,460 of which \$62,642,390 is allocated to debt service and debt service coverage.¹⁰

Ms. Giebink next testified that, in addition to the instant petition for approval from the Division, other requirements remain outstanding to complete the proposed transaction.¹¹ She related that the NBC submitted its loan

⁷ *Id.*

⁸ *Id.* It is important to note that a portion of the proceeds will be used to pay RIIB fees and bond issuance costs.

⁹ *Id.*

¹⁰ Ex. 1, Giebink, p. 2; Ex. 1, Exhibit KG-1.

¹¹ *Id.*

application for this loan on March 30, 2021.¹² Additionally, the NBC's Board of Commissioners approved an Authorizing Resolution for the borrowing of an amount not to exceed \$45,000,000 at their February 23, 2021 Board meeting.¹³ She related that NBC has received a commitment letter from RIIB dated August 19, 2021 indicating that the NBC's loan request was approved by RIIB's Board of Directors.¹⁴

Ms. Giebink noted that the instant application includes a draft loan agreement which she explained is representative of the loan agreement that will be executed as part of this transaction; she explained however, that a final review will be conducted prior to the closing of the loan. Ms. Giebink also noted that the proposed transaction does not contain any "unusual features which may have [a] significant impact on the Division's ability to regulate the utility."¹⁵

In her final remarks, Ms. Giebink indicated that the NBC does have additional planned long-term debt issuances for this fiscal year.¹⁶ She related that the NBC has submitted a Letter of Interest for a Water and Infrastructure Finance and Innovation Act ("WIFIA") loan from the Environmental Protection Agency ("EPA") in the amount of \$27.6 million for funding of the NBC's Field's Point Resiliency projects.¹⁷ If selected to apply, the NBC plans to submit an application in early 2022 and would like to close the loan in 2022 as well. She

¹² *Id.* at 3.

¹³ *Id.*

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Id.*

stated that there is no guarantee that NBC will receive WIFIA funding, and that the NBC will seek Division approval prior to entering into a loan agreement with the EPA for WIFIA funds.¹⁸

Before discussing the instant loan proposal, Mr. Stephen Maceroni offered some background information on PFM and on the independent financial advisory services that PFM provides to public entities. Mr. Maceroni related that over the last 46 years, PFM has grown into a national firm with over 600 employees in 35 offices across the United States. He testified that for the “23rd consecutive year, PFM has maintained its position as the number one financial advisor in the industry, providing financial advisory services in more than 995 transactions for a total par amount in excess of \$69.7 billion in 2020.” Mr. Maceroni added that in terms of wastewater issuers, “...PFM has been the top ranked financial advisor in this sector for several years as well while representing other large wastewater operators including the Massachusetts Water Resources Authority and the DC Water and Sewer District.”¹⁹ Mr. Maceroni testified that PFM was appointed in 2012 to serve as Financial Advisor to the NBC by its Board of Commissioners. He related that, since PFM’s appointment as Financial Advisor to the NBC in 2012, he has gained much experience working with the NBC and is familiar with NBC’s borrowing history and credit needs.²⁰

¹⁸ *Id.*

¹⁹ NBC Exhibit 1, Maceroni Testimony, p. 1.

²⁰ *Id.* at 2.

With respect to the instant matter, Mr. Maceroni indicated that he has been asked to provide testimony in support of the NBC's application for approval to borrow \$45,000,000 through the RIIB.²¹ At the outset, Mr. Maceroni discussed the structure and interest rate assumptions of the RIIB borrowing. He testified that the revenue bonds have a final maturity date of September 1, 2038 with a principal amortization beginning on September 1, 2029.²² He stated that the revenue bonds are being structured with an objective to "smooth-out" the NBC's overall long-term debt service structure while taking advantage of near-historic low interest rates.²³ He continued to describe the structure of revenue bonds, stating that they will contain the traditional RIIB subsidy of 1/3 of the market rate, plus expected principal forgiveness in the amount of \$1million, as well as a reduced annual administration fee of .30% (reduced from .50%). It is anticipated that the borrowing will not exceed a market rate of 2.90%, which would result in a projected effective subsidized yield, including RIIB service fees of approximately 1.94%.²⁴

Mr. Maceroni next provided testimony relating to updates on current market rates, the yield curve, the NBC's credit rating and how these factors influence the NBC's options.²⁵ He testified that current market interest rates are near historic lows enabling governmental issuers to borrow at favorable

²¹ *Id.*

²² *Id.*

²³ *Id.*

²⁴ *Id.*

²⁵ *Id.* at 3.

rates and that the 30-year AAA Municipal Market Data Index (“MMD”) was 1.39% as of August 5, 2021.²⁶ He testified further that credit spreads remain narrow for high credit quality issuers and indicated that the yield curve for “AA” credit rating ranges from approximately 2 to 16 basis points higher than a “AAA” credit rating as of August 5, 2021.²⁷ He noted for the record that the NBC had affirmed its AA- and AA ratings with both S&P Global Ratings and Kroll Ratings in connection with its 2020 WIFIA loans and that the NBC’s credit rating will result in cost savings to ratepayers.²⁸

In his closing comments, Mr. Maceroni related the RIIB is proposing to fund NBC’s loan with existing “on-hand” funds (as opposed to the issuance of bonds in the public market) which will allow for an accelerated timeline enabling the NBC to lock-in rates taking advantage of the “low interest rate environment.” The NBC is requesting a Division decision prior to October 15, 2021.

The Division’s Advocacy Section did not present any witnesses in this docket. After a brief cross-examination of the NBC’s witnesses the Advocacy Section stated for the record that it was satisfied from the evidence presented, that the NBC had met the requisite burden of proof set forth in R.I.G.L. §39-3-15, et seq. and that the proposed borrowing is in the public interest.

²⁶ *Id.*

²⁷ *Id.*

²⁸ *Id.*

FINDINGS

Predicated on a thorough examination of the record in this matter, the Division finds that the NBC's application to enter into long-term debt and issue revenue bonds for an amount not to exceed \$45,000,000 to support a borrowing from the Rhode Island Infrastructure Bank, is reasonable and in the best interest of ratepayers.

Now, therefore, it is

(24238) ORDERED:

1. That the Narragansett Bay Commission's September 2, 2021 application seeking approval to enter into long-term debt and issue revenue bonds for an amount not to exceed \$45,000,000 to support a borrowing from the Rhode Island Infrastructure Bank, is hereby approved as filed.
2. That the Division hereby makes this approval contingent upon the NBC's use of the debt service allowance previously approved by the Public Utilities Commission, or if subsequently required, by additional debt service allowances approved by the Public Utilities Commission.

DATED AND EFFECTIVE AT WARWICK, RHODE ISLAND ON OCTOBER 13, 2021.



Mark Allen Simpkins, Esq.
Hearing Officer

APPROVED:



Linda George, Esq.
Administrator