

**APPLICATION OF  
THE PROVIDENCE WATER SUPPLY BOARD FOR  
AUTHORITY TO BORROW FROM THE RHODE ISLAND  
INFRASTRUCTURE BANK IN AN AMOUNT  
NOT TO EXCEED \$10,000,000**

**November, 2022**

**D-22-\_\_\_\_\_**

## PROVIDENCE WATER SUPPLY BOARD

Application for Authority to Borrow from the Rhode Island Infrastructure Bank in an amount  
Not to exceed \$10,000,000

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STATE OF RHODE ISLAND  
DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN RE: PROVIDENCE WATER SUPPLY BOARD

DOCKET NO. D-22-\_\_

**R.I.G.L. § 39-3-15**  
**APPLICATION OF THE PROVIDENCE WATER SUPPLY BOARD**  
**FOR AUTHORITY TO BORROW AN AMOUNT NOT TO EXCEED**  
**\$10 MILLION FROM**  
**THE RHODE ISLAND INFRASTRUCTURE BANK**

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 Efficient Building Fund an amount not to exceed \$10,000,000.00 primarily for the rehabilitation or replacement of equipment throughout the Providence Water facilities to improve energy efficiency.
3. The borrowing will be provided by the RI Infrastructure Bank, pursuant to a resolution of the Providence Water Supply Board dated October 12, 2022.
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, Nancy Parrillo and Peter LePage 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 an amount not to exceed \$10,000,000.00.

PROVIDENCE WATER SUPPLY BOARD



BY:  
Ricky Caruolo  
GENERAL MANAGER



STATE OF RHODE ISLAND  
COUNTY OF PROVIDENCE

Subscribed and sworn before me this 7 day of November, 2022.

Notary Public   
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-22-\_\_\_\_\_

**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 authorization to obtain financing in an amount not to exceed \$10,000,000 through revenue bonds to be sold by RI Infrastructure Bank for the Efficient Building Fund. The proceeds from the sale of the bonds will be used primarily to repair or replace equipment located within Providence Water’s various facilities to improve energy efficiency.

The application and related documents are on file and may be examined at the office of the Division of Public Utilities and Carriers 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 401-780-2107 five days in advance of hearing date.

Linda George, Administrator

\_\_\_\_\_, 2022

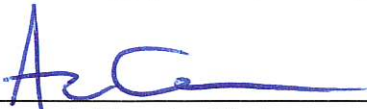
STATE OF RHODE ISLAND  
DIVISION OF PUBLIC UTILITIES AND  
CARRIERS

IN RE: PROVIDENCE WATER SUPPLY BOARD      DOCKET NO. D-22-\_\_\_\_\_

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

Ateesh S. Chanda, 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 an amount not to exceed Ten Million dollars (\$10,000,000).
2. The debt will be incurred primarily for the purpose of the repair or replacement of facility equipment to improve energy efficiency.
3. The total estimated project costs including cost of issuance, loan origination, etc., that will be borrowed are not to exceed Ten Million dollars (\$10,000,000).
4. Attached hereto is the latest Audited Financial Statement of the Providence Water Supply Board, showing the assets and liabilities of the utility.



\_\_\_\_\_  
Ateesh S. Chanda, Chairman



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

STATE OF RHODE ISLAND  
COUNTY OF PROVIDENCE

Subscribed and sworn before me this 14<sup>th</sup> day of November, 2022.



\_\_\_\_\_  
Notary Public

My Commission Expires: #957383  
12/11/22

Testimony

of

NANCY E. PARRILLO

before the

RI DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN SUPPORT OF APPLICATION FOR AUTHORIZATION TO BORROW  
FROM THE RHODE ISLAND INFRASTRUCTURE BANK IN THE AMOUNT  
OF AN AMOUNT NOT TO EXCEED \$10 MILLION

for

PROVIDENCE WATER SUPPLY BOARD

November 2022

Docket No. \_\_\_\_\_

1 Providence Water Supply Board  
2 Testimony of Nancy E. Parrillo  
3

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

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

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

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

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

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

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

19 A. To provide information in support of Providence Water's application to borrow an amount  
20 not to exceed \$10 million from the Rhode Island Infrastructure Bank (RIIB). The funds  
21 will be used to replace or upgrade Providence Water's facilities with more energy efficient  
22 equipment.

23 **Q. Is this amount sufficient to cover the project costs?**

24 A. This amount of \$10 million is estimated to be sufficient to cover the project costs for these



1 projects as well as the cost of issuance, origination fee to the RIIB, and required debt  
2 service reserve fund.

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

4 A. In order to pay the debt service, Providence Water will use rate revenue as approved by the  
5 PUC. Because of the structure of the repayment schedules by the RIIB, Providence Water  
6 does not need to ask for a rate increase to cover the initial repayments because the transfer  
7 of rate revenue to the Infrastructure Replacement Fund is currently sufficient. Providence  
8 Water anticipated additional borrowings in its most recent, three-step rate filing – Docket  
9 4994 – that was approved by the PUC on August 27, 2020 and had included the estimated  
10 debt service payments at that time.

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

12 A. This borrowing will not impact customers at this time. Any impact to the customer base  
13 has been anticipated and included in the three-step rate increase approved in Docket 4994.

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

16 A. Yes. At the October 12, 2022 Board Meeting, the Board authorized the General Manager  
17 to seek approval of the Providence City Council for financing from the RI Infrastructure  
18 Bank for an amount not to exceed \$10 million. See **Exhibit I**. The Ordinance authorizing  
19 this borrowing will be provided upon passage by the City of Providence.

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

23 Yes, a present and proforma capital structure showing the effects of the bond issue is shown

1 at **Exhibit III**. Our projected debt to net property, plant and equipment (“debt to plant”)  
2 with this issue would be 31.82%. Our financial advisor has indicated that rating agencies  
3 consider a ratio of debt to plant less than 40% to be low and of 40% to 60% to be moderate.

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

5 A. Ms. Maureen Gurghigian will address this in her testimony.

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

7 The issuance of the bonds by RI Infrastructure Bank is anticipated in December 2022.

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

9 A. The bonds will be issued under the Trust Indenture dated March 5, 2008. There will be a  
10 Supplemental Indenture issued which relates to these bonds. In this filing, Maureen  
11 Gurghigian, our financial consultant with Hilltop Securities, a division of Hilltop  
12 Securities, Inc. provides testimony and additional information on the bond issuance and  
13 debt service requirements. The general terms of the borrowing are discussed in Ms.  
14 Gurghigian’s testimony.

15 ~ Bonds will be funded through the Efficient Building Fund (EBF) and will have an interest  
16 rate subsidy of 33 1/3%, based on Providence Water’s AA-rating. The estimated effective  
17 interest rate is approximately 3.20% (see **Exhibit IV**).

18 ~ An annual administrative fee of 0.3% of the outstanding loan balance will be paid to RI  
19 Infrastructure Bank. The projected interest rate does not include the administrative fee of  
20 RI Infrastructure Bank.

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

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

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

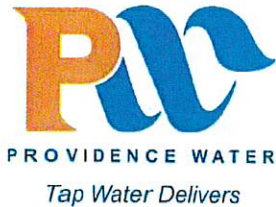
3 A. Yes, it has. See **Exhibit V**.

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

5 A. Yes, we would ask that approval be granted as soon as possible to ensure inclusion in the  
6 next RIIB bond issue which is currently scheduled for December of this year.

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

8 A. Yes.



**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**

**Ateesh S. Chanda**  
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 plant facilities thereto, including but not limited to the replacement and/or improvements of certain operating equipment such as emergency power generators, HVAC units at multiple facilities, various air filtration units, lighting to increase energy efficiency and lower energy costs.


WHEREAS, it is the intent of the Board obtain financing from the Rhode Island Infrastructure Bank (RIIB) in an amount not to exceed ten million dollars (\$10,000,000) for the Project.

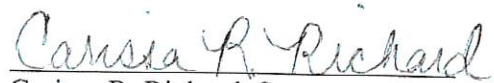
NOW, THEREFORE, BE IT RESOLVED:

❖ 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 October 12, 2022 by vote of the members of the Providence Water Supply Board present.

  
\_\_\_\_\_  
Ateesh S. Chanda, Chairman  
Providence Water Supply Board

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

**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**

125 Dupont Drive  
Providence, RI 02907

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**PROVIDENCE WATER  
CAPITALIZATION  
6/30/2021**

		<b>Due</b>	<b>Interest Rate</b>	<b>Actual Outstanding (1)</b>	<b>Pro-Forma Amount</b>
<b>Long Term Debt:</b>					
Safe Drinking Water Revenue Bonds 2002	(2)	9/1/2021	3.61%	\$ 167,557	\$ 167,557
Safe Drinking Water Revenue Bonds 2008A	(3)	9/1/2029	2.85%	18,597,000	18,597,000
ARRA Stimulus Bonds 2009	(4)	10/2/2015-9/1/30	.041 - 3.14%	5,361,250	5,361,250
Clean Water Watershed Bonds 2012	(5)	9/1/2032	.012 - 3.24%	1,955,000	1,955,000
Clean Water Watershed Bonds 2013	(6)	9/1/2033	.019 - 2.53%	2,919,000	2,919,000
Safe Drinking Water Revenue Bonds 2013	(7)	9/1/2034	.022 - 2.63%	18,596,000	18,596,000
Safe Drinking Water Revenue Bonds 2014	(8)	9/1/2034	.022 - 3.01%	5,960,000	5,960,000
Safe Drinking Water Revenue Bonds 2015	(9)	9/1/2035	.024 - 2.74%	24,676,000	24,676,000
Safe Drinking Water Revenue Bonds 2017	(10)	9/1/2036	.012 - 2.64%	14,109,095	14,109,095
Safe Drinking Water Revenue Bonds 2019	(11)	9/1/2038	2.28 - 3.38%	14,086,000	14,086,000
Safe Drinking Water Revenue Bonds 2008 (ESWD)	(12)	9/1/2028	3.00%	90,000	90,000
Safe Drinking Water Revenue Bonds 2009A (ESWD)	(12)	9/1/2024	3.15%	90,625	90,625
Safe Drinking Water Revenue Bonds 2013A (ESWD)	(12)	9/1/2033	.012 - 2.64%	400,633	400,633
Safe Drinking Water Revenue Bonds 2018 (PSLSR)	(13)	9/1/2024	0.00%	307,238	307,238
Safe Drinking Water Revenue Bonds 2020	(14)	9/1/2039	.250 - 2.36%	19,099,000	19,099,000
Safe Drinking Water Revenue Bonds 2020 (PSLSR)	(13)	9/1/2030	0.00%	609,743	609,743
Safe Drinking Water Revenue Bonds 2021	(15)	9/1/2040	.950 - 3.510%	21,000,000	21,000,000
Efficient Buildings Fund Revenue Bonds 2022	(16)	9/1/2037	2.76 - 3.48%	10,000,000	10,000,000
<b>Total Bonds</b>				<b>\$ 148,024,142</b>	<b>\$ 158,024,142</b>
<b>Total Capitalization</b>				<b>\$ 148,024,142</b>	<b>\$ 158,024,142</b>
Total Assets	(17)			\$ 571,942,404	\$ 729,966,546
Debt/Total Assets				25.88%	21.65%
Net Utility Plant	(17)			\$ 477,529,963	\$ 487,529,963
Debt/Net Utility Plant				31.00%	32.41%

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

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

(11) Borrowing 6/27/2019 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 for the Private Side Lead Service Replacement Loan Program.

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

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

(16) Borrowing scheduled for December 2022 for Energy Efficiency projects.

(17) From Audited Balance Sheet Amounts as of 6/30/20

## EXHIBIT IV

<b>PROVIDENCE WATER</b>	
<b>Comparison of Interest Rates</b>	
	<b>Interest Rate</b>
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%

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*Prepared by HilltopSecurities*





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

October 17, 2022

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

RE: Providence Water Supply Board – Efficient Buildings Fund Loan

Dear Mr. Caruolo,

The Board of Directors of the Rhode Island Infrastructure Bank (the “Bank”), pursuant to policies and procedures adopted in accordance with Chapter 46-12.2 of the Rhode Island General Laws, is pleased to inform you that the application from the Providence Water Supply Board (the “Borrower”) dated as of December 13, 2021 for financing through the Bank has been accepted at the Bank’s October 17, 2022 Board Meeting. The Bank shall provide financial aid in the form of a loan on the terms stated below in an amount up to \$5,500,000 for a term not to exceed twenty years from the time the loan is closed (the “Loan”). The Bank and the Borrower each intend to close the Loan on or prior to December 31, 2022.

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

- 1) that all projects to be funded appear on the Office of Energy Resources (“OER”) Project Priority List;
- 2) that the Loan complies with all applicable Federal, State, OER and Bank laws, rules and regulations;
- 3) that a satisfactory Loan agreement be signed by all parties to the transaction (the “Agreement”);
- 4) that Loan will be made subject to availability of funds as related to the Bank’s capacity; and
- 5) that the Loan will be made subject to ranking on OER’s Project Priority List.

## TERMS AND CONDITIONS

### 1) **Project Priority List**

Each project approved for financing by the Bank must be listed on the Office of Energy Resources Project Priority List, which may be revised from time to time by OER.

### 2) **Loan Agreement**

The Agreement will outline the specific terms and conditions of the Bank’s EBF loan program, as more generally set forth below and in the Agreement, including the Loan. 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 shall be 33 1/3% off 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 EBF program borrowers of the Bank should default in timely payment of debt service on the Loan or on the loans made 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 no later than twenty (20) years after loan closing.

(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**

Loans will have a pledge of (a) general revenues; (b) appropriation backed obligation; or (c) may be secured by any other assets and upon such other terms and



conditions as the Bank deems appropriate to protect the interests of the other participants in the loan programs of the Bank; bondholders; other creditors of the Bank; or the finances of the Bank.

### 3) **Construction Progress Payments**

Progress payments and reimbursements for each construction project will be made through an account established by the Bank (the "Project Account"). Loan proceeds will be transferred to the Project Account 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 the funds requested are in connection with a project on the OER project priority list b) that the vendor is identified in the contract; and c) that there is sufficient availability in the Project Account 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 OER. OER, or its designated representative, 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. OER 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. OER will perform a final project inspection to ensure that the project has been completed as described in the project application, and upon satisfactory inspection, shall provide the Bank with a written approval for the final disbursement. The amount of the final disbursement shall not be less than ten percent (10%) of the principal amount of the Loan.

No more frequently than monthly, the Borrower may submit to the Bank a requisition in the form provided by the Bank, for payment from the Borrower Project Account. Such requisition shall be accompanied by vendor, contractor or supplier invoices, or such other documentation as the Bank shall require, showing that the payee, the purpose and the aggregate amount of payments is within the project definition, all applicable OER approvals and the total amount of the Loan. In the case of a requisition for the reimbursement of project costs paid in the first instance by the Borrower, the requisition shall additionally state that such costs have not been the subject of any prior requisitions and are within all applicable guidelines for reimbursement financing.

Except as provided below, when the Bank and OER have reviewed any requisition and found it to be complete and proper, or have, in their reasonable discretion, waived any non-compliance, the Bank shall transfer the amount of such requisition to the Bank for the Borrower's account therewith. The Bank and OER review of any requisition shall be completed within five (5) business days of its receipt. Upon receipt of such transfer, and in any case within five (5) business days thereof, the Bank shall issue its check to or on the order of the Borrower, in each case, for payment as specified in the requisition. If at the time of any requisition any of the following shall be true:

- (i) there shall then be a continuing event of default hereunder;
- (ii) the Bank shall have been notified by OER that disbursement of the Loan should be suspended as a result of conditions found during an OER review or inspection of the



- project, or any components thereof; or  
(iii) if the representations and warranties contained in the Agreement shall not be true and correct in all material respects as of the date of the requisition;

then the Bank shall have sole discretion as to whether to cause such transfer and to issue such check, as aforesaid.

#### 4) **Compliance and Reporting Requirements**

OER, or its designated representative, may inspect the project at any time during the construction process and following completion of the Project.

**For Energy Efficiency Projects** – Within thirty (30) days of construction completion, the Borrower shall have an independent, 3<sup>rd</sup> party commissioning of all energy efficiency measures. A copy of the commissioning report (hard copy and electronic copy) shall be forwarded to the Bank and OER within thirty (30) days following the commissioning.

**For Solar PV Projects** – Within thirty (30) days of interconnection, the Borrower shall have an independent third-party inspection of the renewable energy system. Third party independent inspections completed pursuant to existing State programs are acceptable. A copy of the inspection report (hard copy and electronic copy) shall be forwarded to the Bank and OER within sixty (60) days following the inspection.

The Borrower is required to comply with all OER data and reporting requests for a minimum period of five (5) years following completion of the project, including but not limited to:

- (a) Actual number of full-time equivalent jobs associated with the project;
- (b) Job types;
- (c) Borrower wide energy consumption compared to baseline consumption that was submitted to OER in the Borrower EBF Project Priority List application;
- (d) For any portion of the projects consisting of energy efficiency projects, comparison of actual units of energy (e.g. kWh, therms, gallons) saved versus estimated units of energy saved based on the Borrower EBF Project Priority List application submitted to OER; and
- (e) For any portion of the project consisting of renewable energy projects, accessibility to the project production dash boards (e.g. Locus, Solectria).

Any inspection or review by the OER or its designated representative is for the limited purpose of confirming completion of the project as described in the project application and is not intended to relieve the borrower or its contractors of any responsibility with respect to the design and construction.

The design and construction shall comply with all applicable State-required regulations, including regulations relating to the federal Americans with Disabilities Act, historic preservation regulations, environmental regulations, and any other regulations or applicable portions thereof.



Upon completion of the project, the Borrower shall be responsible for maintaining all aspects of the project in accordance with the design plans and specifications developed for the project, and its own cost and expense.

Nothing in this letter shall in any way alter or negate the terms of any contracts or agreements necessary for the use of Federal funds or utility incentives for any portion of the project.

The Borrower agrees to comply with all State requirements with respect to carrying out the project, including, but not limited to, those requirements contained in:

- (i) Chapter 46-12.2 of the Rhode Island General Laws;
- (ii) Chapter 37-13 of the Rhode Island General Laws;
- (iii) Chapter 37-14.1 of the Rhode Island General Laws; and
- (iv) Other State laws or administrative rules applying to activities supported with State funds.

The Borrower shall for as long as is required by the Agreement and any applicable law, submit to the Bank on a timely basis, such reports and other information as the Bank may reasonably require to show that the Borrower is in compliance with all such requirements.

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

- (a) A copy of its annual audited financial statements in accordance with Generally Accepted Government Accounting Standards, annually within 9 months of end of fiscal year.
- (b) Unless included as part of the audited financial statements furnished pursuant to item (a) or the annual budget furnished pursuant to item (c), an analysis of municipal operating revenues and expenses and a comparison of such revenues and expenses to the budget adopted for the respective period, annually within 9 months of the end of the fiscal year.
- (c) A copy of the annual budget of the Borrower, within fifteen days of its adoption.
- (d) Unless included as a part of the annual budget or audited financial statements and furnished pursuant to item (c), a schedule of current and projected short-term and long-term debt service, annually with the aforesaid budget.
- (e) Copies of reports submitted to OER, U.S Department of Energy and any other regulatory agency relating to any project financed by the Bank or the operation thereof, simultaneously with such submission.
- (f) Other information or reports that the Bank deems appropriate.

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

The Borrower must comply with all applicable state laws and regulations.

6) **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.

7) **Modifications**

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

8) **Merger**

Once the Agreement, the Bonds 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.

9) **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 any and 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.

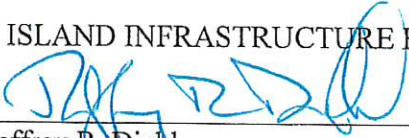
Please sign and return one original copy of this letter to the Rhode Island Infrastructure Bank at 235 Promenade Street, Suite 119, Providence, RI 02908 or via email.

I would like to take this opportunity to thank you for your participation in the Bank's loan program. 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 & CEO

Accepted this 8<sup>th</sup> day of October, 2022

By:   
Title: General Manager  
Authorized Official

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

Karen Grande  
Locke Lord  
Suite 2800  
One Financial Plaza  
Westminster Street  
Providence, RI 02903

Testimony  
of  
PETER R. LEPAGE  
before the  
RI DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN SUPPORT OF APPLICATION FOR AUTHORIZATION TO BORROW FROM THE  
RI INFRASTRUCTURE BANK THE AMOUNT OF \$10,000,000

for  
PROVIDENCE WATER

October 14, 2022  
Docket No. D-21- \_\_\_\_\_

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

2    A.    My name is Peter R. LePage and I am the Director of Engineering for the Providence Water  
3       Supply Board. I am responsible for supporting the collection, treatment, transmission, and  
4       distribution functions with technical engineering expertise and assistance, and the  
5       administration of the Infrastructure Replacement Program for Providence Water.

6

7    **Q.    Please describe your educational background and work experience.**

8    A.    I obtained a Bachelor of Science in Civil Engineering from New England College in 1987. I  
9       have worked for the Providence Water Supply Board for over thirty years. I began my career  
10       with Providence Water in 1992 as a Project Engineer. In 1999 I was promoted to Principal  
11       Engineer, in 2011 promoted to Manager of Planning & Development, in 2012 promoted to  
12       Senior Manager of Engineering, and in 2017 promoted to my current position as Director of  
13       Engineering. Over the years I worked on a variety of drinking water projects as both a  
14       project engineer and project manager.

15

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

17   A.    The funds for this borrowing will primarily be used for certain improvements to the  
18       Providence Water Supply Board's Central Operations Facility (COF), Treatment Plant, and  
19       Fruit Hill Pumping Station thereto, including but not limited to the replacement and/or  
20       improvements of certain operating equipment such as emergency power generators, utility  
21       service transformers, multiple HVAC units, and dehumidification units. In addition, funds

1 will be used to upgrade/replace current lighting systems with LED lighting on various  
2 facilities to increase energy efficiency and lower energy costs.

3

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

5 A. The funding from this borrowing will pay for the replacement of a vintage 1985 (1000 kW)  
6 diesel generator with a cleaner and more efficient natural gas generator to supply emergency  
7 power to the COF. Funds will also pay for the removal of six roof top HVAC units, that are  
8 at the end of their useful life and not energy efficient, with more efficient energy saving  
9 HVAC units. Funds will also pay for replacing the existing Fruit Hill Pumping Station  
10 emergency generator with a new energy efficient generator and the installation of multiple  
11 dehumidification units throughout the treatment plant facility. In addition, funds will pay for  
12 upgrading/replacing older lighting systems with LED energy efficient lighting systems  
13 encompassing multiple Providence Water facilities.

14

15 **Q. What are the expected benefits from these projects?**

16 A. 1. The benefits of replacing the old vintage generators with new more fuel efficient  
17 generators will allow PW to meet current federal and state air emission standards and  
18 potentially reduce fuel costs. In addition, replacing the old HVAC units with new energy  
19 efficient HVAC units will reduce our energy usage costs for these units.

20 2. The benefits of installing new dehumidification units throughout the plant will control  
21 the moisture build up in certain sections of the plant, thereby protecting existing equipment  
22 from high moisture corrosion and extending the useful life of the equipment.



1           3.       The benefits of upgrading/replacing older lighting systems with LED energy efficient  
2 lighting systems will reduces our energy costs for electricity at various facilities.

3

4           4.       The anticipated energy saving estimates equate to approximately \$30,000 over  
5 expected lifetime of the HVAC unit replacement and the LED lighting system upgrade  
6 programs.

7

8   **Q.     Mr. LePage, does that conclude your testimony?**

9   **A.     Yes, it does.**

Testimony

of

MAUREEN E. GURGHIGIAN

before the

RI DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN SUPPORT OF APPLICATION FOR  
AUTHORIZATION TO BORROW  
FROM THE RHODE ISLAND INFRASTRUCTURE BANK  
IN AN AMOUNT NOT TO EXCEED \$10 MILLION

for

PROVIDENCE WATER SUPPLY BOARD

Docket No. \_\_\_\_\_

**PROVIDENCE WATER SUPPLY BOARD  
TESTIMONY OF MAUREEN E. GURGHIGIAN**

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 general government education and transportation sectors among others primarily in  
10 Rhode Island, 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. On average, our office assists clients  
13 with the origination of more than \$500 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?**

30 A: Yes, I have provided testimony before the Public Utilities Commission  
31 (“Commission”) and the Division of Public Utilities and Carriers (“Division”) on

**PROVIDENCE WATER SUPPLY BOARD  
TESTIMONY OF MAUREEN E. GURGHIGIAN**

1       behalf of the Kent County Water Authority, Woonsocket Water Division,  
2       Pawtucket Water Supply Board, the City of Newport Water Division and the  
3       Providence Water Supply Board (“Providence Water”).  
4

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

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

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

13      A. As set forth in its Application for Approval of Borrowing Authority, Providence  
14      Water seeks to obtain a loan in the amount of up to ten million dollars  
15      (\$10,000,000). It is expected that the loan will be funded by RIIB’s Efficient  
16      Buildings Fund (EBF) at below market rates equal to 33% off Providence Water’s  
17      market rate at the time of pricing. The funds will be used to replace or upgrade  
18      Providence Water’s facilities equipment with more energy efficient equipment.  
19      Nancy Parrillo has described the project in her testimony, and I will provide the  
20      details of the financing for the project.  
21

22      **Q. Can you explain how the financing will work for the \$10,000,000 borrowing?**

23      A. Yes. Providence Water has borrowed from RIIB through the Drinking Water State  
24      Revolving Fund in the past. This loan, though funded through RIIB’s EBF program,  
25      will be similar to those previously approved by the Division. This project has been  
26      identified in Providence Water’s capital program and reviewed by the Office of  
27      Energy Resources, RIIB’s regulatory partner for the EBF program. Therefore, this  
28      project qualifies for a subsidized EBF loan from RIIB.  
29

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

31      A. The term is approximately 15 years from the projected completion of construction.

**PROVIDENCE WATER SUPPLY BOARD  
TESTIMONY OF MAUREEN E. GURGHIGIAN**

1 The expected interest cost will reflect a below market rate of 33% off the current  
2 market rates. Based upon market conditions as of October 20, 2022, it is anticipated  
3 that the interest rate on the loan will not exceed a market rate of 5.00%, which  
4 would result in a projected subsidized rate of approximately 3.34%. For purposes  
5 of Division approval, we would recommend a not to exceed market rate of 5.25%  
6 and a subsidized rate of 3.50% to allow for market movement.

7  
8 **Q: How will the funds from this borrowing be disbursed?**

9 A: Approximately \$8,986,824 will be available for project expenditures, approximately  
10 \$848,176 will be set aside in the debt service reserve fund, and approximately  
11 \$165,000 is allocated for costs of issuance, including rating agency fees, bond  
12 counsel, financial advisor and trustee fees, and the origination fee.

13  
14 **Q: What are the applicable schedules and deadlines for this financing?**

15 A: This borrowing is anticipated to take place in December 2022. RIIB generally  
16 requires that all borrower approvals be in place prior to mailing the RIIB  
17 Preliminary Official Statement and/or pricing borrower loans.

18  
19 **Q: What is the projected schedule of debt service for the contemplated new  
20 borrowings?**

21 A. The projected debt service for the new borrowings is displayed in Schedule MG-1.  
22 For the \$10,000,000 loan, average annual debt service is expected to be  
23 approximately \$870,000 per year at the projected interest rates, including the RIIB  
24 annual fee. This amount is subject to change based upon the actual project costs,  
25 draw schedule and prevailing interest rates at the time of borrowing. During the  
26 construction period Providence Water will pay interest based on the construction  
27 draw schedule. That is why the first year's debt service is significantly lower.

28  
29 **Q: Does this complete your testimony?**

30 A: Yes it does.



**RESOLUTION  
OF THE  
PROVIDENCE WATER SUPPLY BOARD**

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

The Hon. Jorge O. Elorza  
Mayor

Ricky Caruolo  
General Manager

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

---

**BOARD OF DIRECTORS**

Ateesh S. Chanda  
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 Board desires to make certain improvements to the Board's Plant facilities thereto, including but not limited to the replacement and/or improvements of certain operating equipment such as emergency power generators, HVAC units at multiple facilities, various air filtration units, lighting to increase energy efficiency and lower energy costs.

WHEREAS, it is the intent of the Board to borrow funds in an amount, not to exceed ten million dollars (\$10,000,000) 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 October 12, 2022 by vote of the members of the Providence Water Supply Board present.

  
\_\_\_\_\_  
Ateesh S. Chanda Chairman  
Providence Water Supply Board

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

---

**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**

125 Dupont Drive  
Providence, RI 02907

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

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**



WEALTH ADVISORY | OUTSOURCING  
AUDIT, TAX, AND CONSULTING

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**PROVIDENCE WATER SUPPLY BOARD  
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)  
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## 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), an enterprise fund of the City of Providence, Rhode Island, as of and for the years ended June 30, 2021 and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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, 2021 and 2020 and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

### ***Reporting Entity***

As discussed in Note 1, the financial statements presently only the Water Supply Board and do not purport to, and do not, present fairly the financial position of the City of Providence as of June 30, 2021 and 2020, 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.

### ***Correction of an Error***

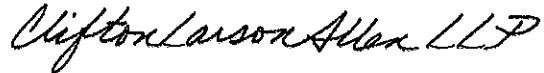
As discussed in Note 12 to the financial statements, certain errors were identified in the prior year financial statements during the current year. Accordingly, amounts have been restated in the 2021 and 2020 financial statements now presented, and adjustments have been made to net position as of June 30, 2019, to correct these errors. Our opinion is not modified with respect to that matter.

## ***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 16, 2022, 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 16, 2022

**PROVIDENCE WATER SUPPLY BOARD  
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021 AND 2020**

---

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, 2021 and 2020.

**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, 2021 AND 2020**

**Condensed financial Information**

	<u>2021</u>	<u>2020</u>	<u>2019*</u>
Total current assets	\$ 82,082,639	\$ 43,603,728	\$ 48,323,882
Total long-term assets	478,079,672	451,775,332	441,096,391
Total assets	<u>560,162,311</u>	<u>495,379,060</u>	<u>489,420,273</u>
Deferred outflows of resources	<u>11,780,093</u>	<u>11,457,933</u>	<u>3,396,558</u>
Total current liabilities	19,879,299	18,482,218	14,062,833
Total long-term liabilities	222,141,102	190,423,825	189,514,439
Total liabilities	<u>242,020,401</u>	<u>208,906,043</u>	<u>203,577,272</u>
Deferred inflows of resources	<u>5,399,793</u>	<u>5,776,081</u>	<u>2,861,073</u>
Net position:			
Net investment in capital assets	329,505,821	336,524,362	319,818,541
Restricted fund	66,732,571	28,893,135	33,525,802
Unrestricted fund	<u>(71,716,182)</u>	<u>(73,262,628)</u>	<u>(66,965,857)</u>
Total Net Position	<u>\$ 324,522,210</u>	<u>\$ 292,154,869</u>	<u>\$ 286,378,486</u>
Total operating revenue	\$ 81,349,230	\$ 69,757,831	\$ 72,330,415
Total operating expenses	46,241,696	51,349,984	49,998,732
Depreciation	10,883,231	11,712,793	9,429,564
Total operating expenses including depreciation	<u>57,124,927</u>	<u>63,062,777</u>	<u>59,428,296</u>
Operating income	24,224,303	6,695,054	12,902,119
Nonoperating expense	(2,866,652)	(1,441,472)	(3,655,366)
Capital grants and contributions	683,986	522,801	915,968
Special item - annexation	10,325,704	-	-
Change in Net Position	<u>\$ 32,367,341</u>	<u>\$ 5,776,383</u>	<u>\$ 10,162,721</u>

\*Amount has been restated

**Financial Highlights**

During the fiscal year 2021, the Water Supply Board had operating revenues that exceeded operating expenses by \$24.2 million. These are primarily due to rate relief to support the continued commitment to the replacement of aging infrastructure, careful management of operating costs, and unexpended revenues allocated for restricted funds. Total assets and deferred outflows were \$571.9 million, up \$65.1 million from last year's total assets of \$506.8 million as a result from the annexation of the Town of Johnston, Rhode Island Water fund. Current assets, principally cash, increased by \$38.5 million, and net plant increased by \$26.5 million.

**PROVIDENCE WATER SUPPLY BOARD  
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The Water Supply Board's net position totaled \$324.5 million at June 30, 2021, an increase of \$32.4 million from June 30, 2020. The increase is the result of unexpended loan proceeds available through the Rhode Island Infrastructure Bank (RIIB) in the restricted funds. Also, reflected in the change to our net position is net operating income of \$24.2 million, net non-operating expenses of \$2.9 million, and capital contributions of \$11.0 million.

The Water Supply Board's net position totaled \$292.2 million at June 30, 2020, an increase of \$6.5 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 \$6.7 million, net non-operating expenses of \$1.4 million, and capital contributions of \$0.5 million.

The Water Supply Board's total operating revenues were \$81.3 million for fiscal year 2021 which was a \$11.6 million or 16.61% increase over the prior year. The primary reason for the increase is due to new rates being approved by the Rhode Island Public Utilities Commission as part of the step two increase filed in Docket 4994. Total operating expenses of the water system amounted to \$57.1 million which was a \$-6.0 million decrease over the prior year's amount of \$63.1 million. The decrease is primarily attributable to Providence Water's management team carefully managing the budget because of the lower amount of cash flow due to the COVID-19 pandemic.

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.

### **Capital Assets and Debt Administration**

#### **Capital Assets:**

At June 30, 2021, the Water Supply Board had \$477.6 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 \$26.5 million, or 5.9%, over the prior year.

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.

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**Major project expenditures in fiscal year 2021 included (in millions):**

• Water Main Rehabilitation	\$	15.31
• Lead Service Replacements	\$	2.67
• Various Distribution System Improvements	\$	1.91
• Full Scale Orthophosphate System	\$	1.48
• Clarification/Pretreatment Process Upgrades	\$	1.10
• Various Support System Improvements	\$	0.96
• Various Pumping and Storage Improvements	\$	0.84
• Various Transmission System Improvements	\$	0.67
• Various Treatment System Improvements	\$	0.54
• Various Dam Improvements	\$	0.33

The Water Supply Board's fiscal year 2021 capital budget included project expenditures of \$22.06 million for infrastructure and capital projects. The major projects were: continuation of the water main replacements and upgrades, replacement of lead services and aging fire hydrants, upgrades to aging pump stations and storage facilities. 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 2021. New major capital investments that will benefit ratepayers for many years are generally funded with long-term debt financing.

**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 2021, the Water Supply Board rehabilitated 12 miles at a cost of approximately \$15 million.

During FY 2021, the Water Supply Board replaced 719 public side lead services at a cost of \$2,152,436. 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 20,012 lead services to the end of fiscal year 2021 (June 30, 2021) at cost of over \$60 Million.

**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. Effective August 2020, the amount approved by the PUC in Docket 4994 increased to \$1 million per year and extended the repayment term from the original 3-year term to a 10-year term. This program is to address the reduction of lead found in homes that could be harmful to the residents, especially children.

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The program entered into its first loan in April of 2018 and through June 30, 2021, 616 loans had been executed in the amount of approximately \$2.5 million. 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.

**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 successfully implemented a system-wide orthophosphate addition.

**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 2021, the Water Supply Board flushed approximately 81 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.

**Debt**

At June 30, 2021, the Water Supply Board had \$147.1 million in bonds and notes outstanding versus \$114.5 million in the previous year. This represented an increase of \$32.6 million or 28.4%. This is due to the issuance of new debt for the Water Main Rehabilitation/Replacement Project.

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.

**Subsequent Events**

In June 2021, the Public Utilities Commission approved new rates effective July 1, 2021, that represented the step two increase of this 3-year filing.

The overall rate increase for the first year was 16.82%. The increase for the step 2 increase was 4.3% and the third step is anticipated to be 3.85%.

**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.



**PROVIDENCE WATER SUPPLY BOARD  
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**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, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Assets:		
Current unrestricted assets:		
Cash and cash equivalents	\$ 1,412,166	\$ 3,100,343
Cash held by fiscal agent	29,667,246	
Accounts receivable, net of allowance for uncollectible accounts of \$2,053,685 in 2021 and \$1,726,534 in 2020	9,222,593	7,047,304
Accounts receivable - unbilled	2,942,852	2,503,355
Inventory	439,528	555,429
Other assets	42,753	231,941
Total current unrestricted assets	<u>43,727,138</u>	<u>13,438,372</u>
Current restricted assets:		
Cash and cash equivalents	36,837,008	28,974,483
Accounts receivable	1,342,466	1,016,907
Notes receivable - short term	176,027	173,966
Total current restricted assets	<u>38,355,501</u>	<u>30,165,356</u>
Total current assets	<u>82,082,639</u>	<u>43,603,728</u>
Capital assets:		
Land	26,449,185	25,382,574
Building and improvements	150,095,165	143,887,545
Improvements other than buildings	476,024,773	439,301,774
Machinery and equipment	49,213,782	42,100,953
Scituate Reservoir Project	18,681,695	18,681,695
Construction in progress	31,689,984	41,186,167
	<u>752,154,584</u>	<u>710,540,708</u>
Less accumulated depreciation and amortization	<u>274,624,621</u>	<u>259,491,112</u>
Total capital assets, net	<u>477,529,963</u>	<u>451,049,596</u>
Other noncurrent assets:		
Notes receivable - long term	<u>549,709</u>	<u>725,736</u>
Deferred Outflows of Resources:		
OPEB-related deferred outflows of resources	6,166,474	2,343,652
Pension-related deferred outflows of resources	5,613,619	9,114,281
Total deferred outflows of resources	<u>11,780,093</u>	<u>11,457,933</u>
Total assets and deferred outflows of resources	<u>571,942,404</u>	<u>506,836,993</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, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Liabilities:		
Current:		
Accounts payable	\$ 1,756,809	\$ 1,111,364
Accrued liabilities	3,073,183	3,491,769
Due to City of Providence General Fund	560,560	1,124,334
Current portion of long-term debt	8,579,596	7,209,834
Current portion of OPEB liability	4,069,266	3,546,960
Total current unrestricted liabilities	<u>18,039,414</u>	<u>16,484,261</u>
Amounts to be paid from current restricted assets:		
Due to Water Resources Board	210,653	196,467
Amounts payable from restricted assets	1,629,232	1,801,490
Total current restricted liabilities	<u>1,839,885</u>	<u>1,997,957</u>
Total current liabilities	<u>19,879,299</u>	<u>18,482,218</u>
Noncurrent liabilities:		
General revenue bonds	139,444,546	107,315,400
Net pension liability	58,083,935	59,590,496
Total OPEB liability	24,612,621	23,517,929
Total noncurrent liabilities	<u>222,141,102</u>	<u>190,423,825</u>
Total liabilities	<u>242,020,401</u>	<u>208,906,043</u>
Deferred Inflows of Resources:		
OPEB-related deferred inflows of resources	2,511,634	2,775,701
Pension-related deferred inflows of resources	2,888,159	3,000,380
Total deferred inflows of resources	<u>5,399,793</u>	<u>5,776,081</u>
Net Position:		
Net investment in capital assets	329,505,821	336,524,362
Restricted	40,019,359	28,893,135
Unrestricted	<u>(45,002,970)</u>	<u>(73,262,628)</u>
Total Net Position	<u>\$ 324,522,210</u>	<u>\$ 292,154,869</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, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Operating Revenues:		
Charges for services:		
Water sales:		
General customers	\$ 56,867,300	\$ 49,277,118
Other local water suppliers	18,696,757	15,571,499
Fire protection services	3,290,155	2,720,260
Maintenance charges and other revenue	2,495,018	2,188,954
Total operating revenues	<u>81,349,230</u>	<u>69,757,831</u>
Operating Expenses:		
Source of supply	3,094,386	2,885,503
Pumping operations	718,673	841,726
Water treatment	8,322,661	8,485,942
Transmission and distribution	6,102,449	6,400,982
Charge for services provided by other City departments	839,167	839,167
Customer accounts and service	2,999,822	2,762,129
Administrative and general	16,177,894	21,237,713
Depreciation	10,843,456	11,712,793
Property taxes - other local governments	8,026,419	7,896,822
Total operating expenses	<u>57,124,927</u>	<u>63,062,777</u>
Operating Income	<u>24,224,303</u>	<u>6,695,054</u>
Nonoperating Revenue (Expense):		
Interest income	546,327	1,407,353
Interest expense and other	(3,422,627)	(3,123,460)
Gain (loss) on sale of asset	9,648	274,635
Net nonoperating expense	<u>(2,866,652)</u>	<u>(1,441,472)</u>
Capital Grants and Contributions	683,986	522,801
Special Item - Annexation	10,325,704	
Total capital grants, contributions and special items	<u>11,009,690</u>	<u>522,801</u>
Change in Net Position	32,367,341	5,776,383
Net Position - Beginning of Year, as restated	<u>292,154,869</u>	<u>286,378,486</u>
Net Position - End of Year	<u>\$ 324,522,210</u>	<u>\$ 292,154,869</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, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 78,596,012	\$ 69,581,595
Payments to vendors	(29,091,908)	(24,376,521)
Payments to employees	(17,266,344)	(21,047,770)
Net cash provided by operating activities	<u>32,237,760</u>	<u>24,157,304</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(27,926,149)	(22,582,979)
Interest and issuance costs paid on debt	(3,422,627)	(3,123,460)
Proceeds from bond issuance	40,764,289	569,675
Principal payments on long-term debt	(7,265,381)	(6,405,309)
Proceeds from note receivable	173,966	157,911
Capital grants	683,986	522,801
Net cash provided by (used in) capital and related financing activities	<u>3,008,084</u>	<u>(30,861,361)</u>
Cash Flows from Investing Activities:		
Investment income	546,327	1,407,353
Proceeds from sale of assets	9,648	274,634
Net cash provided by investing activities	<u>555,975</u>	<u>1,681,987</u>
Net Increase (Decrease) in Cash and Cash Equivalents	35,801,819	(5,022,070)
Cash and Cash Equivalents - Beginning of Year	<u>32,074,826</u>	<u>37,096,896</u>
Cash and Cash Equivalents - End of Year	<u>\$ 67,876,645</u>	<u>\$ 32,074,826</u>
Unrestricted Cash and Cash Equivalents	\$ 31,079,412	\$ 3,100,343
Restricted Cash and Cash Equivalents	<u>36,837,008</u>	<u>28,974,483</u>
	<u>\$ 67,916,420</u>	<u>\$ 32,074,826</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 24,224,303	\$ 6,721,687
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	10,843,456	11,712,793
Provision for doubtful accounts	(327,151)	(436,046)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(1,724,939)	472,912
(Increase) decrease in inventories	115,901	(125,680)
(Increase) decrease in other assets	189,188	(179,767)
(Increase) decrease in deferred outflows of resources	(322,160)	(7,387,000)
Increase (decrease) in due to other funds	(563,774)	353,371
Increase (decrease) in accounts payable and accrued expenses	68,787	(421,748)
Increase (decrease) net pension liability	(1,506,561)	7,625,782
Increase (decrease) net OPEB liability	1,616,998	3,607,000
Increase (decrease) in deferred inflows of resources	<u>(376,288)</u>	<u>2,214,000</u>
Net Cash Provided by Operating Activities	<u>\$ 32,237,760</u>	<u>\$ 24,157,304</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, 2021, 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 marketplace.

**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 acquisition 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 2021, the \$98,548 in fees that had been collected was recognized by the Water Supply Board as revenue. In 2020, the \$91,280 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, 2021 and 2020, 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, 2021 and 2020, 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.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is the Water Supply Board's policy to use restricted resources first, then unrestricted resources as they are needed.

**PROVIDENCE WATER SUPPLY BOARD  
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**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.

**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.

**Reclassification of Prior Year Presentation**

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

**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  
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**3. CASH**

The following is a summary of cash and investments as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,412,166	\$ 3,100,343
Restricted cash and cash equivalents	<u>36,837,008</u>	<u>28,974,483</u>
	<u>\$ 38,249,174</u>	<u>\$ 32,074,826</u>

Responsibility for custodial credit risk of deposits, investment risk, interest rate risk and concentration of investments rests with the City. Additional information about these risks 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). 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, 2021 of \$38,249,174, \$250,000 is covered by Federal Deposit Insurance Corporation (FDIC) insurance and \$1,162,166 of the balance is covered by the collateral agreements. Of the cash and cash equivalent balances at June 30, 2020 of \$32,074,826, \$250,000 is covered by FDIC insurance and \$2,850,343 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, 2021:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Annexation</u>	<u>Ending Balance</u>
Capital assets not being depreciated:					
Land	\$ 25,382,574	\$ 1,026,611	\$ -	\$ 40,000	\$ 26,449,185
Scituate Reservoir Project	18,681,695	-	-	-	18,681,695
Construction in progress	41,186,167	28,447,977	37,944,160	-	31,689,984
Total capital assets not being depreciated	<u>85,250,436</u>	<u>29,474,588</u>	<u>37,944,160</u>	<u>40,000</u>	<u>76,820,864</u>
Capital assets being depreciated:					
Buildings and improvements	143,887,545	6,207,620	-	-	150,095,165
Sewer and infrastructure	439,301,774	23,112,747	-	13,610,252	476,024,773
Equipment	42,100,953	7,075,352	-	37,477	49,213,782
Total capital assets being depreciated	<u>625,290,272</u>	<u>36,395,719</u>	<u>-</u>	<u>13,647,729</u>	<u>675,333,720</u>
Less accumulated depreciation for:					
Buildings and improvements	84,667,391	3,533,448	-	-	88,200,839
Sewer and infrastructure	142,298,923	5,734,685	-	4,252,576	152,286,184
Equipment	32,524,798	1,575,323	-	37,477	34,137,598
Total accumulated depreciation	<u>259,491,112</u>	<u>10,843,456</u>	<u>-</u>	<u>4,290,053</u>	<u>274,624,621</u>
Total capital assets being depreciated, net	<u>365,799,160</u>	<u>25,552,263</u>	<u>-</u>	<u>9,357,676</u>	<u>400,709,099</u>
Capital Assets, Net	<u>\$ 451,049,596</u>	<u>\$ 55,026,851</u>	<u>\$ 37,944,160</u>	<u>\$ 9,397,676</u>	<u>\$ 477,529,963</u>

**PROVIDENCE WATER SUPPLY BOARD  
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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>

**5. LONG-TERM DEBT**

The following is the long-term debt activity as of June 30, 2021:

	<b>2021</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	\$ 114,525,234	\$ 40,764,289	\$ 7,265,381	\$ 148,024,142	\$ 8,579,596
Net pension liability	59,590,496	-	1,506,561	58,083,935	-
Total OPEB liability	<u>27,064,889</u>	<u>1,616,998</u>	<u>-</u>	<u>28,681,887</u>	<u>4,069,266</u>
Long-Term Liabilities	<u>\$ 201,180,619</u>	<u>\$ 42,381,287</u>	<u>\$ 8,771,942</u>	<u>\$ 234,789,964</u>	<u>\$ 12,648,862</u>

**PROVIDENCE WATER SUPPLY BOARD  
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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>	<u>3,546,960</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>\$ 10,756,794</u>

The following is a summary of bonds and notes outstanding at June 30, 2021 and 2020:

<u>Description</u>	<u>Amount of Interest Rate (%)</u>	<u>Outstanding June 30, 2021</u>	<u>Outstanding June 30, 2020</u>
Safe Drinking Water Bonds (CWFA FY2002)	3.61%	\$ 167,557	\$ 329,492
Safe Drinking Water Bonds (CWFA FY2008)	2.85%	18,597,000	20,324,000
Safe Drinking Water Bonds (CWFA FY2010)	.0410% to 3.14%	5,361,250	5,806,250
Safe Clean Water Bonds (CWFA FY2012)	.072% to 3.26%	1,955,000	2,093,000
Safe Clean Water Bonds (CWFA FY2013)	.019% - 2.53%	2,919,000	3,109,000
Safe Drinking Water Bonds (CWFA FY2013)	.022% - 2.63%	18,596,000	19,699,000
Safe Drinking Water Bonds (CWFA FY2013)	.022% - 3.01%	5,960,000	6,311,000
Safe Drinking Water Bonds (CWFA FY2015)	.022% - 3.01%	24,676,000	26,035,000
Safe Drinking Water Bonds (CWFA FY2017)	.022% to 1.95%	14,109,095	14,840,095
Safe Drinking Water Bonds (RIIB- FY2018)	0.00%	307,238	640,572
Safe Drinking Water Bonds (CWFA FY2019)	.022% to 1.95%	14,086,000	14,699,000
Safe Drinking Water Bonds (CWFA FY2020)	1.17%	19,099,000	
Safe Drinking Water Bonds (CWFA FY2021)	.070% to 2.09%	21,000,000	
Safe Drinking Water Bonds (RIIB- FY2020)	0.00%	609,744	
East Smithfield Water District DWSRF Bonds Series 2009A (RIIB- FY2009 Bond)	3.51%	90,625	113,667
East Smithfield Water District DWSRF Loan Series 2009A (RIIB- FY2009 Loan)	3.00%	90,000	100,000
East Smithfield Water District DWSRF Bond Series 2014A (RIIB- FY2014 Bond)	1.30% - 3.43%	<u>400,633</u>	<u>425,158</u>
Total		<u>\$ 148,024,142</u>	<u>\$ 114,525,234</u>



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Scheduled principal maturities at June 30, 2021 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>
2022	\$ 8,579,596	\$ (811,777)	\$ 3,034,247	\$ 10,802,066
2023	9,276,123	(822,620)	3,091,256	11,544,759
2024	9,233,551	(834,127)	2,961,352	11,360,776
2025	9,326,004	(846,463)	2,207,707	10,687,248
2026	9,507,298	(851,210)	2,567,441	11,223,529
2027-2031	48,784,820	(4,499,065)	9,285,375	53,571,130
2032-2036	38,217,362	(3,973,470)	3,900,158	38,144,050
2037-2041	15,099,388	(2,398,427)	695,649	13,396,610
Total	\$ <u>148,024,142</u>	\$ <u>(15,037,159)</u>	\$ <u>27,743,185</u>	\$ <u>160,730,168</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, 2021 and 2020. 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, 2021 and 2020 totaled \$560,560 and \$1,124,334, 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, 2021 and 2020 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  
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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

**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. A separate financial statement is not issued for the Plan.

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).

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The approximate membership of the ERS plan for the Water Supply Board consisted of the following at July 1, 2020, the date of the latest actuarial valuation:

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

The total pension liability was determined by an actuarial valuation as of July 1, 2020 and rolled forward to June 30, 2021, 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

For the year ended June 30, 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 27.0%. 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, 2021 are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	<u>16.00</u>	3.19
	<u><u>100.00 %</u></u>	

**PROVIDENCE WATER SUPPLY BOARD  
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**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, 2021 was \$4,262,000.

**Investment Policy**

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

**Net Pension Liability**

The net pension liability was measured as of June 30, 2021, 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, 2021</u>	<u>June 30, 2020</u>
Total pension liability	\$ 82,681,060	\$ 80,502,639
Plan fiduciary net position	<u>24,597,125</u>	<u>20,912,143</u>
<b>Net Pension Liability</b>	<b>\$ <u>58,083,935</u></b>	<b>\$ <u>59,590,496</u></b>
 Plan fiduciary net position as a percentage of the total pension liability	 29.75%	 25.98%

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances as of July 1, 2020	\$ 80,502,639	\$ 20,912,143	\$ 59,590,496
Changes for the year:			
Service cost	1,166,900		1,166,900
Interest on total pension liability	5,266,382		5,266,382
Differences between expected and actual experience	814,236		814,236
Employer contributions		4,262,000	(4,262,000)
Member contributions		634,891	(634,891)
Net investment income		3,893,207	(3,893,207)
Benefit payments, including refund to employee contributions	(5,069,097)	(5,095,301)	26,204
Administrative expenses		(9,815)	9,815
Net changes	<u>2,178,421</u>	<u>3,684,982</u>	<u>(1,506,561)</u>
Balances as of June 30, 2021	\$ <u>82,681,060</u>	\$ <u>24,597,125</u>	\$ <u>58,083,935</u>
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
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  
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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.
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.

**PROVIDENCE WATER SUPPLY BOARD  
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**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.

**Discount Rate**

The discount rate used to measure the total pension liability at June 30, 2021 and 2020 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, 2021:

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Net Pension Liability	\$ 68,011,828	\$ 58,083,935	\$ 49,922,279



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

The following presents the net pension liability of the Retirement System, calculated using the discount rate of 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

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

For the years ended June 30, 2021 and 2020, the Water Supply Board recognized pension expense of \$6,144,582 and \$7,474,913, respectively.

At June 30, 2021, 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	\$ 705,504	\$ 247,273
Changes of assumptions	4,787,113	
Changes in proportion and differences between employer contributions and proportionate share of contributions	121,002	1,617,059
Net difference between projected and actual earning on pension plan investments		1,023,827
	<u>\$ 5,613,619</u>	<u>\$ 2,888,159</u>

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	1,503,295	
	<u>\$ 9,114,281</u>	<u>\$ 3,000,380</u>

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

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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**

2022	\$ 1,658,511
2023	1,653,607
2024	(44,486)
2025	<u>(542,172)</u>
	<u>\$ 2,725,460</u>

**Payable to the Plan**

At June 30, 2021, the Water Supply Board had made full payment of the required pension contribution for the year ended June 30, 2021.

**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, 2020:

Active members	4,514
Retirees	<u>5,393</u>
Total	<u><u>9,907</u></u>

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

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**Total OPEB Liability**

For the years ended June 30, 2021 and 2020, the Water Supply Board recognized OPEB liability of \$28,681,887 and \$27,064,889, 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, 2020 using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	3.50%
Salary increases	3.50% per year before reflecting longevity. Longevity compensation varies from 3.0% to 11.0% based on years of service, date of hire and Class
Health care trend rates	<p>Non-Medicare medical: 7.0% decreasing by 0.25% for 10 years to an ultimate level of 4.5% per year</p> <p>Medicare medical: 6.0% decreasing by 0.25% for 6 years to an ultimate level of 4.5% per year</p> <p>Prescription drug: 9.0% decreasing by 0.25% for 18 years to an ultimate level of 4.5% per year</p> <p>Part B: 4.5%</p> <p>Administrative: 3.0%</p>
Mortality rates	<p><u>Pre-Retirement</u></p> <p>Class A Heathy: Pub-2010 General Employee Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019</p> <p>Class B Heathy: Pub-2010 Safety Employee Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019</p> <p>Teachers: Pub-2010 Teacher Employee Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019</p> <p><u>Post-Retirement</u></p> <p>Class A Heathy: Pub-2010 General Healthy Retiree Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019</p> <p>Class B Heathy: Pub-2010 Safety Healthy Retiree Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019</p> <p>Teachers Healthy: Pub-2010 Teacher Healthy Retiree Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019</p> <p>Class A Beneficiaries: Pub-2010 General Contingent Survivor Retiree Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019</p>

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

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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

**Changes in the Total OPEB Liability for the Water Supply Board**

	<u>Total OPEB Liability</u>
Balances as of July 1, 2020	\$ <u>27,064,889</u>
Changes for the year:	
Service cost	558,459
Interest on total OPEB liability	842,300
Changes in assumptions	4,504,506
Differences between expected and actual experience	(200,612)
Change from difference in proportionate share	(3,408,861)
Benefit payments	(678,794)
Net changes	<u>1,616,998</u>
Balances as of June 30, 2021	\$ <u><u>28,681,887</u></u>

Changes of assumptions reflect the following:

- The discount rate was lowered from 3.50% as of June 30, 2019 to 2.21% as of June 30, 2020.
- The per capita health care costs, and the associated trends on the costs and contributions, were updated to reflect current experience and future expectations.

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

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	<u>Total OPEB Liability</u>
Balances as of July 1, 2019	\$ <u>23,457,889</u>
Changes for the year:	
Service cost	575,778
Interest on total OPEB liability	916,055
Changes in assumptions	442,418
Differences between expected and actual experience	695,648
Change from difference in proportionate share	1,239,364
Benefit payments	<u>(262,263)</u>
Net changes	<u>3,607,000</u>
Balances as of June 30, 2020	\$ <u><u>27,064,889</u></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**

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

The following presents the total OPEB liability of the Water Supply Board, as well as what the Water Supply Board's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.21%) or 1 percentage point higher (3.21%) than the current discount rate (2.21%) at June 30, 2021:

	<u>1% Decrease</u> 1.21%	<u>Current Discount Rate</u> 2.21%	<u>1% Increase</u> 3.21%
Total OPEB Liability	\$ 34,776,888	\$ 28,681,887	\$ 24,022,923

The following presents the total OPEB liability of the Water Supply Board, as well as what the Water Supply Board'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 (3.87%) at June 30, 2020:

	<u>1% Decrease</u> 2.87%	<u>Current Discount Rate</u> 3.87%	<u>1% Increase</u> 4.87%
Total OPEB Liability	\$ 27,882,234	\$ 27,064,889	\$ 20,663,968

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

The following presents the total OPEB liability of the Water Supply Board, as well as what the Water Supply Board'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, 2021:

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 23,588,397	\$ 28,681,887	\$ 35,429,223

The following presents the total OPEB liability of the Water Supply Board, as well as what the Water Supply Board'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>
Total OPEB Liability	\$ 20,276,042	\$ 27,064,889	\$ 28,421,281

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

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

For the year ended June 30, 2021, the City recognized OPEB expense of \$80,520,837 and the Water Supply Board recognized OPEB expense of \$2,039,587. At June 30, 2021, 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>
Differences between expected and actual experience	\$ 518,346	\$ 166,091
Changes of assumptions	4,080,999	1,933,087
Changes in proportion and differences between employer contributions and proportionate share contributions	888,335	412,456
Contributions subsequent to measurement date	<u>678,794</u>	
Total	<u>\$ 6,166,474</u>	<u>\$ 2,511,634</u>

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
Contributions subsequent to measurement date	<u>674,375</u>	
Total	<u>\$ 2,343,652</u>	<u>\$ 2,775,701</u>



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

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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**

2022	\$	473,249
2023		559,320
2024		651,316
2025		638,478
2026		<u>653,683</u>
	\$	<u><u>2,976,046</u></u>

**11. CASH FLOWS**

**Annexation**

During 2021, the annexation of the Town of Johnston, Rhode Island's Water Fund added \$13,687,727 of capital assets to the Water Supply Board in a noncash transaction.

**12. PRIOR PERIOD ADJUSTMENTS AND RESTATEMENTS**

The Water Supply Board previously did not properly report deferred outflows of resources related to the OPEB plan for contributions received subsequent to the measurement date.

	<u>6/30/2020</u> Previously Reported	<u>Correction</u>	<u>6/30/2020</u> As Restated
<b>Statements of Net Position</b>			
Deferred outflows of resources related to OPEB	\$ 1,669,277	\$ 674,375	\$ 2,343,652
Net position	291,480,494	674,375	292,154,869
<b>Statements of Revenues, Expenses and Changes in Net Position</b>			
Administrative and general	21,211,080	26,633	21,237,713
Change in net position	5,803,016	(26,633)	5,776,383
Beginning net position	285,677,478	701,008	286,378,486

**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\***

	2021	2020	2019	2018	2017	2016	2015
Total pension liability:							
Service cost	\$ 1,166,900	\$ 995,246	\$ 979,926	\$ 980,877	\$ 1,017,119	\$ 941,053	\$ 854,182
Interest	5,266,382	5,175,617	5,396,418	5,258,402	5,172,289	5,130,041	5,509,989
Differences between expected and actual experience	314,236	(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				3,083,805	40,391
Benefit payments, including refunds of member contributions	(5,069,097)	(4,758,753)	(5,156,388)	(5,178,444)	(5,178,542)	(5,531,918)	(4,663,093)
Net change in total pension liability	2,178,421	10,487,683	1,327,396	871,171	409,512	7,274,938	1,820,722
Total pension liability - beginning	80,502,639	70,014,956	68,687,560	67,816,389	67,406,877	60,131,939	58,311,217
Total pension liability - ending	82,681,060	80,502,639	70,014,956	68,687,560	67,816,389	67,406,877	60,131,939
Plan fiduciary net position:							
Contributions - employer	4,262,000	4,083,000	4,180,000	3,828,000	3,636,754	3,615,102	3,212,354
Contributions - member	634,891	604,613	634,544	610,831	573,624	615,760	1,037,505
Net investment income	3,893,207	(233,787)	764,455	1,198,417	1,752,168	401,320	331,724
Change from difference in proportionate share				(54,698)	(298,595)	1,086,733	
Benefit payments, including refunds of member contributions	(5,095,301)	(1,582,761)	(5,426,927)	(5,178,444)	(5,178,542)	(5,531,918)	(4,663,093)
Administrative expense	(9,815)	(9,164)	(8,608)	(11,173)	(12,559)	(9,408)	(9,367)
Net change in plan fiduciary net position	3,684,882	2,861,901	143,464	392,933	472,850	177,589	(90,877)
Plan fiduciary net position - beginning	20,912,143	18,050,242	17,906,778	17,513,845	17,040,995	16,863,406	16,954,283
Plan fiduciary net position - ending	24,597,125	20,912,143	18,050,242	17,906,778	17,513,845	17,040,995	16,863,406
Net Pension Liability - Ending	\$ 58,083,935	\$ 59,590,496	\$ 51,964,714	\$ 50,780,782	\$ 50,302,544	\$ 50,365,882	\$ 43,268,533
Plan fiduciary net position as a percentage of the total pension liability	29.75%	25.98%	25.78%	26.07%	25.83%	25.28%	28.04%
Covered payroll	\$ 14,236,747	\$ 13,591,633	\$ 13,580,693	\$ 13,790,686	\$ 12,980,186	\$ 13,096,208	\$ 12,930,447
Net pension liability as a percentage of covered payroll	407.99%	438.44%	382.64%	368.23%	387.53%	384.58%	334.63%

**\*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\*

	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 4,262,000	\$ 4,083,000	\$ 4,180,000	\$ 3,828,000	\$ 3,636,754	\$ 3,615,102	\$ 3,212,354
Contributions in relation to the actuarially determined contribution	4,262,000	4,083,000	4,180,000	3,828,000	3,636,754	3,615,102	3,212,354
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 14,236,747	\$ 13,591,633	\$ 13,580,693	\$ 13,790,686	\$ 12,980,186	\$ 13,096,208	\$ 12,930,447
Contributions as a percentage of covered payroll	29.94%	30.04%	30.78%	27.76%	28.02%	27.60%	24.84%

Notes to Schedule

Valuation date: July 1, 2020  
 Measurement date: June 30, 2021

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: 20 years remaining as of July 1, 2020 (12 years remaining as of July 1, 2020 for the 1995 deferral).
- Asset valuation method: Market value of assets as represented by the City less unrecognized returns in each of the last five years plus the discounted contribution paid by the city in the following year. Unrecognized return is equal to the difference between the actual market return and the expected market return and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value.
- Inflation: 3.50%
- Salary increases: 3.50% per year before reflecting increases due to longevity compensation
- Discount rate: 7.00%
- Investment rate of return: 8.00%, net of pension plan investment and administrative expenses, including inflation.
- Benefit changes: There have been no changes in benefit provisions since GASB 67/68 implementation.
- Cost of living adjustments: COLAs will 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, 2026, when the Plan was projected to be greater than 70% funded with the prior valuation. Any Class B retired participant whose total benefit is greater than the base of compensation of a current employee holding the same rank that the retiree held at the time of retirement will not receive a COLA in any year until this is no longer true. We have assumed that Class B average compensation for all ranks will increase by 3.5% per year. Future COLAs will not exceed 3% per year.

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

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

	2021	2020	2019	2018	2017	2016	2015
Annual money-weighted rate of return, net of investment expense	27.00%	-2.00%	4.50%	7.30%	12.20%	2.60%	5.56%

**\*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 THREE FISCAL YEARS\***

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Total OPEB liability:			
Service cost	\$ 558,459	\$ 575,778	\$ 575,778
Interest on the total OPEB liability	842,300	916,055	916,055
Changes of assumptions	4,504,506	442,418	442,418
Differences between expected and actual experience	(200,612)	695,648	695,648
Change from difference in proportionate share	(3,408,861)	1,239,364	1,239,364
Benefit payments	(678,794)	(262,263)	(262,263)
Net change in total OPEB liability	<u>1,616,998</u>	<u>3,607,000</u>	<u>3,607,000</u>
Total OPEB liability - beginning	<u>27,064,889</u>	<u>23,457,889</u>	<u>23,457,889</u>
Total OPEB Liability - Ending	<u>\$ 28,681,887</u>	<u>\$ 27,064,889</u>	<u>\$ 27,064,889</u>

The City does not have any assets accumulated in a trust for payment of OPEB expenses.

\*Note - This schedule is intended to show information for 10 years - additional years will be displayed

\*Note - Measurement date of the total OPEB liability is one year prior to report date



**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, 2021, 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 16, 2022.

**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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-001 that we consider to be material weaknesses.

## **Compliance and Other Matters**

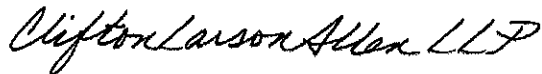
As part of obtaining reasonable assurance about whether the Water Supply Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and 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*.

### **City of Providence, Rhode Island's Response to Findings**

City of Providence, Rhode Island's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Providence, Rhode Island's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.



**CliftonLarsonAllen LLP**

Cranston, Rhode Island  
March 16, 2022



**PROVIDENCE WATER SUPPLY BOARD  
 (AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)  
 SCHEDULE OF FINDINGS AND RESPONSES  
 JUNE 30, 2021**

<b>Finding 2021-001</b>	Material Weakness in Internal Control over Financial Reporting
<b>Condition</b>	Management identified and corrected an error related to an understatement of deferred outflows of resources and understatement of net position as of June 30, 2020 and June 30, 2019 applicable to OPEB contributions made subsequent to the measurement date.
<b>Criteria or specific requirement</b>	Management is responsible for the design and implementation of internal controls. Internal controls should be in place to provide reasonable assurance that the financial statements are prepared in accordance with U.S. GAAP.
<b>Effect</b>	The identified errors required the restatement of the beginning net position reported for the Water Supply Board.
<b>Cause</b>	Internal controls were not in place to ensure balances reported in the prior year financial statements were properly supported and reported in accordance with U.S. GAAP.
<b>Recommendation</b>	We recommend management evaluate the current financial reporting processes and controls to ensure that controls are in place to present the external financial statements in accordance with U.S. GAAP.
<b>Description of Finding</b>	Management identified and corrected an error related to an understatement of deferred outflows of resources and understatement of net position as of June 30, 2020 and 2019 applicable to OPEB contributions made subsequent to the measurement date.
<b>Statement of Concurrence or Non-Concurrence</b>	Management concurs with the finding.
<b>City Response</b>	Management was made aware of this reporting deficiency, agreed with the finding and has restated the net position to include deferred outflows of resources. The error is corrected as of the beginning for fiscal year ending June 30, 2021.

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