



NARRAGANSETT BAY COMMISSION

ONE SERVICE ROAD. PROVIDENCE, RI 02905

**Approval to Enter Into Long-Term Debt and Issue
Revenue Bonds in an Amount Not to Exceed \$43,000,000**

December 4, 2006

Vincent Mesolella, Jr.
Chairman

Paul Pinault
Executive Director

The Narragansett Bay Commission
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Vincent J. Mesolella
Chairman

Paul Pinault, P.E.
Executive Director



December 4, 2006

Luly Massaro, Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, Rhode Island 02888

Subject: Request for Division Approval to Enter into Long-Term Debt and Issue Revenue Bonds in an Amount Not-to-Exceed \$43,000,000

Dear Ms. Massaro:

The Narragansett Bay Commission (NBC) is seeking Division approval under Section 39-3-15 to enter into long-term debt and issue revenue bonds for an amount not to exceed \$43 million. The Division has previously approved a similar revenue bond issue. Division approval is needed prior to the distribution of the Preliminary Official Statement required for discussions with purchasers which are scheduled to begin the last week of December. As a result Division approval is needed by December 31, 2006. Pricing is scheduled for January 15, 2007 and the closing is scheduled for the week of January 29, 2007.

The NBC respectfully requests an expedited review of the enclosed application in accordance with the Division's powers as delineated in Section 39-1-38. Please contact Karen Giebink (461-8848 ext. 342) if you have any questions or require any additional information.

Sincerely,

Karen L. Giebink
Director of Administration & Finance

Enclosures

CC: Raymond Marshall, Narragansett Bay Commission
Maureen E. Gurghigian, First Southwest Company
Jeffrey Nemecek, Tillinghast Licht

CERTIFICATE OF SERVICE

I, Karen L. Giebink, hereby certify that I have, this 4th day of December, 2006 caused a copy of the within application filed under Section 39-3-15 for the Narragansett Bay Commission to be served on all parties designed on the official service list in this proceeding.

A handwritten signature in black ink, appearing to read 'Karen L. Giebink', is written over a horizontal line.


Karen L. Giebink,
Director of Administration and Finance

IN RE:
NARRAGANSETT BAY COMMISSION
Authority to Issue Not-To-Exceed
\$43 Million in Revenue Bonds

NARRAGANSETT BAY COMMISSION

ATTESTATION

I, Karen L. Giebink, Director of Administration & Finance, hereby make affidavit that the testimony I presented is true and correct to the best of my knowledge, information and belief.



Karen L. Giebink

STATE OF RHODE ISLAND
PROVIDENCE, SC.

Subscribed and sworn to before me on this 27th day of November 2006.



Notary Public

1 **NARRAGANSETT BAY COMMISSION**

2
3 **PRE-FILED DIRECT TESTIMONY**

4 **OF KAREN L. GIEBINK**

5
6 **Q. Please state your name and address.**

7 A. Karen L. Giebink. My business address is the Narragansett Bay Commission,
8 One Service Road, Providence, Rhode Island 02905.
9

10 **Q. For whom are you employed and what is your position?**

11 A. I am employed by the Narragansett Bay Commission (NBC) as its Director of
12 Administration and Finance.
13

14 **Q. For how long have you been so employed?**

15 A. I have been employed in this position since April 1997. I began my employment
16 with the NBC in 1989 and have held the positions of Policy Associate and Senior
17 Environmental Planner. The three years prior to my employment with the NBC I
18 worked as an analyst for the City of San Diego Water Utilities Department.
19

20 **Q. Have you previously testified before the Division of Public Utilities and**
21 **Carriers (Division)?**

22 A. Yes. I provided testimony in certain previous NBC requests for approval to enter
23 into long-term debt. I have also provided testimony in dockets 1968, 2216 and
24 3651 before the Public Utilities Commission (PUC).
25

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

27 A. To provide supplemental information regarding NBC's request to issue revenue
28 bonds in an amount not to exceed \$43,000,000.

1 **Q. What is the NBC requesting from the Division?**

2 A. The NBC is requesting Division approval to enter into long-term debt and issue
3 revenue bonds in an amount not exceed \$43 million at an interest rate not to
4 exceed 5.25%.

5
6 **Q. Can you describe this revenue bond issue?**

7 A. The proposed long term financing is a fixed rate open market revenue bond in a
8 par amount of \$42.520 million that is to be amortized over 30 years.

9
10 **Q. What will be funded with the bond issue proceeds?**

11 A. In accordance with the authorizing resolution passed by NBC's Board of
12 Commissioners at its October 18, 2006 meeting the bond issue proceeds may be
13 used for financing the acquisition, design, evaluation, inspection, construction,
14 improvement, cleaning, installation, rehabilitation, furnishing and equipping of :
15 (i) the Phase I Combined Sewer Overflow (CSO) Facilities, (ii) the Phase II CSO
16 Facilities (iii) the Demolition of Field's Point Incinerating Facility, (iv) the Field's
17 Point Wastewater Treatment Facility Nitrogen Removal Facilities, (v) Bucklin
18 Point Biogas Microturbines (vi) Field's Point Wind Turbines (vii) a Site Specific
19 Study for the Metals Compliance Plan, (viii) Water Quality Monitoring, (ix) the
20 River Model Development, (x) the Asset Management System, (xi) the
21 Improvements to Air Piping and Splitter Box D, (xii) the Upgrade of the Field's
22 Point Operations Building and other miscellaneous improvements at various
23 locations, (xiii) the Bucklin Point Wastewater Treatment Facility Nitrogen
24 Removal (xiv) the Bucklin Point Wastewater Treatment Facilities Improvements
25 (xv) the Capital Management Operations and Management (CMOM) Plan
26 Development, (xvi) a System-Wide Facilities Plan, (xvii) the Washington
27 Highway, Omega and Central Ave. Pump Stations, (xviii) the Geographic
28 Information System (GIS) Implementation, (xix) the Lab Building Heating,
29 Ventilating and Air Conditioning Repairs, (xx) the Floatables Control Facilities,
30 and (xxi) Commission Interceptors (hereinafter referred to as the "Projects"); In
31 addition, proceeds will be used to pay RICWFA fees and bond issuance costs.

1

2 **Q. Has the Division previously approved a similar revenue bond issue?**

3 A. Yes. In Division Docket D-05-22, a similarly structured revenue bond issue for a
4 par amount of \$45 million was approved by the Division. NBC priced the bonds
5 on July 19, 2005 and held the closing on August 4, 2005.

6

7 **Q. Has the NBC completed all of the steps necessary to issue the revenue bonds?**

8 A. NBC's Board of Commissioners authorized the revenue bond issuance by
9 resolution passed at its October 18, 2006 Board meeting (Exhibit KG-1). The rate
10 relief required to support the debt was authorized by the Public Utilities
11 Commission in a bench decision issued on November 17, 2006. NBC staff is in
12 the process of updating its official statement prior to the issuance. In addition a
13 credit review with Standard and Poor's will be scheduled shortly. NBC's A+
14 credit rating was reaffirmed by Standard and Poor's as part of the review for the
15 pending loan from the RICWFA (see Exhibit KG-2) however a separate credit
16 review is required for this issue.

17

18 **Q. Do NBC's current rates generate sufficient revenue to fund the debt service
19 associated with this loan?**

20 A. Yes. In a bench decision on November 17, 2006, the PUC approved a cost of
21 service for the NBC that includes an annual debt service and debt service
22 coverage allowance of \$ 38,540,156. In order to demonstrate that NBC has
23 sufficient revenues to fund the debt service and debt service coverage we have
24 included debt service coverage schedules that reflect the proposed structure of the
25 issue with principal retirement beginning in the fiscal year ending 6/30/2028 (see
26 Exhibit KG-3). The Exhibit clearly shows that there is sufficient capacity to
27 finance the additional debt service and maintain the coverage requirements.

28

29 **Q. When does NBC need a decision from the Division regarding this loan?**

30 A. Our underwriter must provide the institutional investors that typically purchase
31 these types of bonds with information about NBC in advance of the sale in order
32 to effectively market the bonds and enable NBC to achieve the lowest rate.

1 Division approval is needed prior to the distribution of the Preliminary Official
2 Statement required for discussions with purchasers which are scheduled to begin
3 the last week of December. As a result Division approval is needed by December
4 31, 2006. Pricing is scheduled for January 15, 2007 and the closing is scheduled
5 for the week of January 29, 2007. Final debt service schedules will be forwarded
6 to the Division as soon as they are available.

7

8 **Q. Does this conclude your pre-filed testimony?**

9 A. Yes.

10

RESOLUTION NO. 2006: 35

NARRAGANSETT BAY COMMISSION

RESOLUTION AUTHORIZING THE NARRAGANSETT BAY COMMISSION TO ISSUE REVENUE OBLIGATIONS IN AN AMOUNT NOT TO EXCEED \$50,000,000 FOR THE PURPOSE OF FINANCING THE ACQUISITION, DESIGN, EVALUATION, INSPECTION, CONSTRUCTION, IMPROVEMENT, INSTALLATION, CLEANING, REHABILITATION, FURNISHING AND EQUIPPING OF THE PHASE I COMBINED SEWER OVERFLOW (CSO) FACILITIES, THE PHASE II CSO FACILITIES, THE DEMOLITION OF FIELD'S POINT INCINERATING FACILITY, THE FIELD'S POINT WASTEWATER TREATMENT FACILITY NITROGEN REMOVAL FACILITIES, BUCKLIN POINT BIOGAS MICROTURBINES, FIELD'S POINT WIND TURBINES, A SITE SPECIFIC STUDY FOR THE METALS COMPLIANCE PLAN, WATER QUALITY MONITORING, THE RIVER MODEL DEVELOPMENT, THE ASSET MANAGEMENT SYSTEM, THE IMPROVEMENTS TO AIR PIPING AND SPLITTER BOX D, THE UPGRADE OF THE FIELD'S POINT OPERATIONS BUILDING AND OTHER MISCELLANEOUS IMPROVEMENTS AT VARIOUS LOCATIONS, THE BUCKLIN POINT WASTEWATER TREATMENT FACILITY NITROGEN REMOVAL, BUCKLIN POINT WASTEWATER TREATMENT FACILITIES IMPROVEMENTS, THE CAPITAL MANAGEMENT OPERATIONS AND MANAGEMENT (CMOM) PLAN DEVELOPMENT, A SYSTEM-WIDE FACILITIES PLAN, THE WASHINGTON HIGHWAY, OMEGA AND CENTRAL AVENUE PUMP STATIONS, THE GEOGRAPHIC INFORMATION SYSTEM (GIS) IMPLEMENTATION, THE LAB BUILDING HEATING, VENTILATING AND AIR CONDITIONING REPAIRS, THE FLOATABLES CONTROL FACILITIES, AND COMMISSION INTERCEPTORS, CAPITALIZED INTEREST AND FINANCING COSTS, AND THE FUNDING OF AN ACCOUNT IN THE DEBT SERVICE RESERVE FUND FOR THE REVENUE OBLIGATIONS AND AUTHORIZING AND APPROVING THE EXECUTION AND DELIVERY OF A SIXTH SUPPLEMENTAL INDENTURE AND OTHER MATTERS

WHEREAS, the Narragansett Bay Commission (the "Commission") desires to issue revenue obligations in an amount not to exceed Fifty Million Dollars (\$50,000,000) pursuant to Title 46-25-58 of the Rhode Island General Laws, for the purpose of financing the acquisition, design, evaluation, inspection, construction, improvement, cleaning, installation, rehabilitation, furnishing and equipping of (i) the Phase I Combined Sewer Overflow (CSO) Facilities, (ii) the Phase II CSO Facilities, (iii) the Demolition of Field's Point Incinerating Facility, (iv) the Field's Point Wastewater Treatment Facility Nitrogen Removal Facilities, (v) Bucklin Point Biogas

Microturbines, (vi) Field's Point Wind Turbines, (vii) a Site Specific Study for the Metals Compliance Plan, (viii) Water Quality Monitoring, (ix) the River Model Development, (x) the Asset Management System, (xi) the Improvements to Air Piping and Splitter Box D, (xii) the Upgrade of the Field's Point Operations Building and other miscellaneous improvements at various locations, (xiii) the Bucklin Point Wastewater Treatment Facility Nitrogen Removal, (xiv) the Bucklin Point Wastewater Treatment Facilities Improvements, (xv) the Capital Management Operations and Management (CMOM) Plan Development, (xvi) a System-Wide Facilities Plan, (xvii) the Washington Highway, Omega and Central Avenue Pump Stations, (xviii) the Geographic Information System (GIS) Implementation, (xix) the Lab Building Heating, Ventilating and Air Conditioning Repairs, (xx) the Floatables Control Facilities, and (xxi) Commission Interceptors (hereinafter referred to as the "Projects"); and

WHEREAS, the Commission desires to issue an amount not to exceed Fifty Million Dollars (\$50,000,000) interest bearing revenue bonds for the purposes described above; and

WHEREAS, the Commission may desire to issue temporary revenue notes in anticipation of the issuance of its revenue bonds; and

WHEREAS, prior to the issuance of the revenue bonds or notes, the Commission will request that the Division of Public Utilities and Carriers approve the Commission's issuance of such Obligations of an amount not to exceed \$50,000,000; and

NOW, THEREFORE, THE COMMISSION RESOLVES AS FOLLOWS:

1. Obligations Authorized. The Chairman and the Executive Director, on behalf of the Commission, are authorized to issue revenue obligations pursuant to Title 46-25-58 of the Rhode Island General Laws (the "Obligations") in an amount not to exceed Fifty Million Dollars

(\$50,000,000) for the purpose of financing the Projects, capitalized interest and financing costs and the funding of a debt service reserve. The Obligations shall have such security provisions as to parity or subordination and shall be in such series and designated as set forth in the Trust Indenture dated as of April 15, 2004 by and between the Commission and J.P. Morgan Trust Company, National Association (the "Trust Indenture") and the Sixth Supplemental Indenture (as defined below). The Obligations shall not be deemed to constitute a debt or pledge of the faith and credit of the State or any municipality. Neither the State nor any municipality shall be obligated to pay the Obligations or the interest thereon, and neither the faith and credit nor the taxing power of the State or any municipality is pledged to such payment. The Commission may issue additional revenue obligations on a parity with these Obligations.

2. Obligations as Bonds and Notes; Bond Anticipation Notes. The Obligations shall constitute either revenue bonds or revenue notes as referenced in Title 46-25-58 of the Rhode Island General Laws. The said officers from time to time may issue and refund not exceeding Fifty Million Dollars (\$50,000,000) interest bearing or discounted bond anticipation notes (the "Notes") in anticipation of the issuance of not exceeding Fifty Million Dollars (\$50,000,000) of bonds (the "Bonds").

3. Agreements. For the purpose of financing the Projects, the Chairman and the Executive Director, or in the event of their absence, illness or other inability to act, any member of the Commission whom the Chairman or the Executive Director may designate, are hereby authorized to execute and deliver (i) a Sixth Supplemental Indenture (or subsequently issued supplemental indenture to issue bonds to refund initially issued bond anticipation notes (collectively, the "Sixth Supplemental Indenture") to be entered into by the Commission and J.P.

Morgan Trust Company, National Association, as trustee (the "Trustee") amending and supplementing the Trust Indenture; (ii) a Preliminary Official Statement and a final Official Statement relating to the Obligations; (iii) a Purchase Contract (the "Purchase Contract") to be entered into by the Commission and an underwriter to be approved by the Chairman and the Executive Director (the "Underwriter"); and (iv) all other documents and instruments described in the Trust Indenture and the Sixth Supplemental Indenture necessary or convenient in connection therewith to comply with any requirements, restrictions or covenants not contrary to applicable local, state or federal law, as requested by the insurance company providing insurance, if any, for the Bonds and Notes or to amend, modify or supplement the Trust Indenture or Sixth Supplemental Indenture, in such forms acceptable to such Chairman, Executive Director or other member of the Commission, with such changes, omissions, insertions and revisions as shall be determined advisable by the person executing the same, and such authorized person's execution thereof shall be conclusive as to such determination. The Commission hereby authorizes the Chairman or Executive Director to deem the Preliminary Official Statement "final as of its date" pursuant to Rule 15c2-12 of the Securities and Exchange Commission.

4. Sale of the Obligations. The Obligations shall be sold pursuant to the terms of the Purchase Contract and the rates of interest per annum to be borne by any fixed rate Obligations shall be determined pursuant to a certificate to be delivered by the Chairman or Executive Director of the Commission, or in the event of their absence, illness or other inability to act, any member of the Commission who the Chairman or Executive Director may designate, which rates shall not exceed 9% per annum. The rates of interest per annum for any Obligations sold with variable rates of interest shall be determined pursuant to the Trust Indenture and the Sixth

Supplemental Indenture, which rates shall not exceed 14% per annum. Notwithstanding the foregoing, the Obligations may bear a default rate which shall not exceed the highest rate permitted by law.

The Chairman or the Executive Director, or in the event of their absence, illness or other inability to act, any member of the Commission whom the Chairman or the Executive Director may designate, are hereby authorized to sign and deliver to the Underwriter for distribution to the purchaser or purchasers of the Obligations the Preliminary Official Statement and the final Official Statement (the "Official Statement") in forms acceptable to such member of the Commission with such changes, omissions, insertions and revisions as such authorized person shall have deemed necessary or advisable and all actions heretofore taken by the aforementioned persons and their agents in furtherance of such actions are hereby ratified. The Obligations shall be executed with the manual or facsimile signature of the Chairman or Executive Director, shall have the Commission's seal imprinted thereon. The Chairman or the Executive Director, or in the event of their absence, illness or other inability to act, any member of the Commission whom the Chairman or the Executive Director may designate, are hereby authorized and directed to deliver the Obligations or cause them to be delivered to the purchaser or purchasers thereof.

5. Details of the Obligations. The Chairman or the Executive Director of the Commission, or in the event of their absence, illness or other inability to act, any member of the Commission whom the Chairman or the Executive Director may designate, are hereby authorized to reduce the total principal amount of the Obligations to be sold, to sell the Obligations financing the Project, to select the dated date or dates of the Obligations, the maturity, redemption and other terms of the Obligations as set forth in the Trust Indenture and the Sixth

Supplemental Indenture. The Chairman and Executive Director are hereby authorized to execute and deliver such other documents and take such other actions, including the purchase of insurance and the procurement of a liquidity or credit facility for the Obligations, as may be necessary, desirable or advisable to effectuate the issuance of the Obligations.

6. Appointment of Trustee and Paying Agent. J.P. Morgan Trust Company, National Association is hereby appointed, designated, and approved as trustee and paying agent for the Obligations. This appointment of the trustee and paying agent shall be evidenced by execution of the Sixth Supplemental Indenture.

7. Compliance with Code. The Commission agrees to take all lawful action necessary to ensure that the interest on the Obligations will remain exempt from federal income taxation to the effect provided in Section 103 of the Internal Revenue Code, as amended (the "Code"), and it agrees not to take any action which will cause interest on the Obligations to lose the benefit of the exclusion from gross income and the Chairman or Executive Director is hereby authorized to execute and deliver any and all documents, papers or elections and to make any filings with the Internal Revenue Service as may be necessary to accomplish such result. The Chairman or Executive Director of the Commission shall be authorized to execute a certification as to arbitrage to comply with Section 148 of the Code.

8. Additional Documents. From and after the execution and delivery of the documents hereinabove authorized, the proper officers, directors, agents and employees of the Commission are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of said documents as executed and such officers, directors, agents and employees are further

authorized to take any and all further actions and to execute and deliver any and all other documents as may be necessary in connection with the issuance of the Obligations and in the execution, delivery and performance of the Trust Indenture and Sixth Supplemental Indenture.

9. Continuing Disclosure. The Chairman and the Executive Director are authorized to execute and deliver a Continuing Disclosure Agreement in connection with the Obligations in such form as shall be deemed advisable by the Chairman and the Executive Director. The Commission hereby covenants and agrees that it will comply with and carry out all of the provisions of such Continuing Disclosure Agreement, as it may be amended from time to time. Notwithstanding any other provision of this Resolution or the Obligations, failure of the Commission to comply with the Continuing Disclosure Agreement shall not be considered an event of default; however, any holder of the Obligations may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Commission to comply with its obligations under this Resolution and under the Continuing Disclosure Agreement.

10. Reimbursements. This Resolution is an affirmative action of the Commission toward the issuance of the Obligations in accordance with the purposes of the laws of the State. This Resolution constitutes the Commission's declaration of official intent pursuant to the Treasury Regulation Section 1.150-2 to reimburse the Narragansett Bay Water Quality Management District Commission Fund for certain capital expenditures for the projects 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 Obligations. Such amounts to be reimbursed shall not exceed \$50,000,000 and shall be reimbursed not later than eighteen (18) months after the later of (a) the date on which the

expenditure is paid, or (b) the date the applicable project is placed in service or abandoned but in no event later than three (3) years after the date the expenditure is paid.

11. Effectiveness. This Resolution shall take effect upon its passage and shall supersede and supplement Resolution No. 32 passed by the Commission on September 27, 2006.

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STANDARD
& POOR'S

RATINGS DIRECT

RESEARCH

Narragansett Bay Commission, Rhode Island; Water/Sewer

Publication date: 21-Nov-2006
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Credit Profile

AFFIRMED

\$45.000 mil. Narragansett Bay Comm wstwr (MBIA) AAA/A+(SPUR)

OUTLOOK: STABLE

Rationale

Standard & Poor's Ratings Services affirmed its 'A+' underlying rating (SPUR) on Narragansett Bay Commission, R.I.'s wastewater system revenue bonds. The affirmation reflects:

- The service area's large, diverse, and growing economic base, centered on Providence;
- Consistently good financial performance, with 15 years of consecutive operating surpluses;
- The commission's ability to issue (and practice of issuing) low interest debt through the Rhode Island Clean Water Financing Agency (RICWFA); and
- Low rates that have increased but remain competitive.

Somewhat mitigating these strengths are the following factors:

- The commission's lack of autonomous rate-setting authority; and
- A large capital improvement program (CIP) that totals \$194 million for fiscals 2008-2012.

The bonds are secured by the net revenues of the commission. The commission is again borrowing through the RICWFA, the state's low interest state revolving fund, with a pledge of net revenues on a parity basis with these bonds. The commission plans to borrow \$30 million of the agency's \$60 million fall 2006 bond series issuance. Proceeds will be used to finance ongoing CIP projects.

The commission, established in 1980, serves 10 communities consisting of roughly 360,000 residents and 8,000 businesses in northeastern Rhode Island, primarily Providence and Pawtucket. The commission has no taxing authority, but bills and collects based on adopted user charges. However, the commission can not autonomously increase rates; instead, any increase, even an increase to adhere to the commission's rate covenant of 1.25x annual debt service coverage, must be approved by the Rhode Island Public Utility Commission (PUC), an independent state-level, rate-setting body. Recently the commission has had good relations with the PUC and has had successful rate increase hearings.

The commission owns and operates two wastewater treatment facilities. The Field's Point facility is the second-largest treatment facility in New England, after Deer Island in Boston Harbor, with a dry-weather capacity of 65 millions of gallons per day (mgd) and a wet capacity of 200 mgd. Field's Point operated at 45.69 mgd in fiscal 2005 and provides for adequate capacity for future growth. Bucklin Point wastewater treatment facility, the second-largest treatment facility in Rhode Island, recently completed a \$71 million

facility upgrade, which, among other things, increased wet-period treatment capacity to 116 mgd. The plant in fiscal 2005 had an average daily flow of 24.61 mgd. These two plants treat roughly 70% of all sewerage in the state and serve more than one-third of the state's population.

The commission's financial performance continues to be good, closing each of the past 15 fiscal years under budget. Net revenues covered fiscal 2006 debt service by 1.80x, and the commission has an adopted policy to maintain annual debt service coverage of at least 1.25x on net revenues. Coverage of the maximum annual debt service (MADS) including the \$30 million loan from the RICWFA is 1.16x. Maximum annual debt service would occur in 2010. Fiscal 2006 closed \$2.7 million better than budget, and net assets increased by \$17.7 million to \$257 million. The fiscal 2007 budget is balanced and reflects a 1.2% increase over fiscal 2006. The commission's revenue sources were primarily residential user fees (52%) and commercial and industrial user fees (43%). On the expenditure side, debt service was about 43% of fiscal 2006 revenues, and is projected to plateau at that level in future years.

The system's liquidity is strong, with unrestricted cash and investments of \$15.9 million, or 205 days' operating expenses at the end of fiscal 2006, although this is down from more than 500 days in fiscal 2004. This strong liquidity somewhat mitigates the risk associated with the need to file with the PUC for rate setting. After the latest rate increase, 4% in July 2006, the average residential bill for a single family is \$295, or \$74 quarterly. The PUC has approved significant annual rate increases in recent years, including 25% in both 2001 and 2002 and 13% in 2005.

The commission's large CIP totals \$194 million for fiscals 2008-2012, which includes the completion of phase 1 construction of a combined sewer overflow elimination tunnel project and the initiation of phase 2 combined sewer overflow remediation work. In addition to the \$30 million from the RICWFA, the commission also plans to issue \$43 million of parity revenue bonds in early 2007. The commission has \$70 million of variable-rate debt outstanding, equal to about 18% of total debt. The commission has a policy for variable-rate debt to comprise less than 25% of total debt, but it has no plans to issue additional variable-rate debt. The commission is not engaged in any interest-rate swaps.

Outlook

The stable outlook reflects Standard & Poor's expectation that the commission will continue to get the necessary rate increases through the PUC to maintain coverage consistent with its rate covenant while financing the large CIP.

Service Economy

The Providence-Warwick-Pawtucket MSA, which is not coterminous with the commission's service area, but covers many of the same municipalities, experienced a 5% population increase from 1990 to 2000. Income indicators are roughly on par with the nation's. Providence's economy anchors the service area. The commission's 10 leading customers consist of stable colleges and universities, regional hospitals, and cities. The service area is diverse, and the 10 leading users account for about 10% of operating revenues.

Capital improvement program

The largest component of the \$194 million fiscals 2008-2012 CIP is phase II of combined sewer overflow (CSO) project, which represents \$67 million or 33% of the total CIP. The next largest component is \$57 million for upgrades to a wastewater treatment facility, 30% of the CIP. Completion of phase I of the CSO project comprises 17% of the CIP, and this phase is 75% complete.

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EXHIBIT KG-3

Narragansett Bay Commission

Schedule of Debt Service Coverage including January 2007 \$43 M Revenue Bond Issue

Fiscal Year	Net Revenue Available for Debt Service	Current Debt Service	Coverage	Debt Service RICWFA Pool Loan 10	Debt Service \$43 Million Revenue Bond	Total Debt Service	Coverage
2007	32,529,274	23,380,987	1.39	28,811		23,409,798	1.39
2008	38,540,156	26,140,877	1.47	1,716,195	2,257,500	30,114,572	1.28
2009	38,540,156	26,350,128	1.46	1,793,507	2,257,500	30,401,135	1.27
2010	38,540,156	26,342,856	1.46	1,794,224	2,257,500	30,394,580	1.27
2011	38,540,156	26,236,371	1.47	1,793,455	2,257,500	30,287,326	1.27
2012	38,540,156	25,746,919	1.50	1,793,264	2,257,500	29,797,683	1.29
2013	38,540,156	25,281,718	1.52	1,793,667	2,257,500	29,332,885	1.31
2014	38,540,156	25,091,480	1.54	1,793,550	2,257,500	29,142,530	1.32
2015	38,540,156	24,637,794	1.56	1,792,768	2,257,500	28,688,062	1.34
2016	38,540,156	24,119,594	1.60	1,793,296	2,257,500	28,170,390	1.37
2017	38,540,156	23,698,727	1.63	1,793,144	2,257,500	27,749,371	1.39
2018	38,540,156	23,218,503	1.66	1,792,304	2,257,500	27,268,307	1.41
2019	38,540,156	22,737,289	1.70	1,792,749	2,257,500	26,787,538	1.44
2020	38,540,156	22,265,415	1.73	1,792,493	2,257,500	26,315,408	1.46
2021	38,540,156	21,758,575	1.77	1,792,559	2,257,500	25,808,634	1.49
2022	38,540,156	20,429,665	1.89	1,791,930	2,257,500	24,479,095	1.57
2023	38,540,156	16,352,473	2.36	1,791,552	2,257,500	20,401,525	1.89
2024	38,540,156	12,694,631	3.04	1,791,440	2,257,500	16,743,571	2.30
2025	38,540,156	11,572,541	3.33	1,791,611	2,257,500	15,621,652	2.47
2026	38,540,156	7,863,856	4.90	1,791,051	2,257,500	11,912,407	3.24
2027	38,540,156	9,534,250	4.04	1,789,799	2,257,500	13,581,549	2.84
2028	38,540,156	9,515,145	4.05	-	5,637,500	15,152,645	2.54
2029	38,540,156	9,499,168	4.06	-	5,635,050	15,134,218	2.55
2030	38,540,156	9,478,651	4.07	-	5,633,413	15,112,064	2.55
2031	38,540,156	9,467,782	4.07	-	5,637,063	15,104,845	2.55
2032	38,540,156	9,447,818	4.08	-	5,635,213	15,083,031	2.56
2033	38,540,156	9,430,681	4.09	-	5,637,600	15,068,281	2.56
2034	38,540,156	9,409,110	4.10	-	5,638,438	15,047,547	2.56
2035	38,540,156	9,390,217	4.10	-	5,637,200	15,027,417	2.56
2036	38,540,156	5,688,750	6.77	-	5,638,363	11,327,113	3.40
2037	38,540,157	-			5,636,138		
Total		\$ 526,781,971		35,803,367	101,515,975	\$ 658,465,175	

IN RE:
NARRAGANSETT BAY COMMISSION
Authority to Issue Not-To-Exceed
\$43 Million in Revenue Bonds

NARRAGANSETT BAY COMMISSION

ATTESTATION

I, Maureen E. Gurghigian, Managing Director of First Southwest Company, hereby make affidavit that the testimony I presented on behalf of the Narragansett Bay Commission is true and correct to the best of my knowledge, information and belief.



Maureen E. Gurghigian

STATE OF RHODE ISLAND
PROVIDENCE, SC.

Subscribed and sworn to before me on this 28th day of November 2006.


Notary Public

1 NARRAGANSETT BAY COMMISSION

2
3 **PRE-FILED DIRECT TESTIMONY**
4 **OF MAUREEN GURGHIGIAN**
5

6
7 **Q. Please state your name.**

8 A. My name is Maureen E. Gurghigian, Managing Director with First Southwest
9 Company.
10

11 **Q. Could you please describe your educational and employment background?**

12 A. I hold a masters degree in business administration from the University of Rhode
13 Island. Prior to joining First Southwest on June 8, 2001, I worked for 16 years at
14 Fleet Bank and/or Fleet Securities, all in municipal finance. From 1993 through
15 2000, I served as Manager of the New England Investment Banking Group of
16 Fleet Securities, Inc. Prior to joining Fleet, I spent 8 years in Rhode Island State
17 government, including four years as Director of the Governor's Policy Office
18 under then Governor J. Joseph Garrahy.
19

20 Among other duties, I provide financial advisory services to issuers of municipal
21 debt, primarily in the State of Rhode Island. Annually, I am involved in more that
22 20 publicly offered bond issues. In addition, I have supervisory responsibility for
23 First Southwest's involvement with borrowings by the State of Rhode Island,
24 numerous public agencies and 30 Rhode Island municipalities. Our office assists
25 clients with the origination of more than \$800 million in public financing issues
26 each year.
27

28 **Q. Can you describe the organization of First Southwest Company and the types
29 of services that it provides?**

30 A. During the past 60 years, First Southwest Company has served as financial
31 advisor to many issuers such as schools, cities, airports, hospitals, sports

1 complexes, water and wastewater authorities and districts and toll roads.
2 Currently the firm serves more than 2,000 municipalities and agencies, including
3 more than 400 in New England. Last year, the firm was involved in the issuance
4 of more than \$46 billion in securities on behalf of our clients, including nearly
5 \$18 billion as financial advisor.

6

7 **Q. Do you hold any special licenses or certifications?**

8 A. I am a registered Municipal Principal with the Municipal Securities Rulemaking
9 Board and hold the Series 52, 53 and 63 licenses.

10

11 **Q. Have you testified previously before the Rhode Island Public Utilities**
12 **Commission (RIPUC)?**

13 A. Yes. I have provided testimony before the RIPUC and/or the Division of Public
14 Utilities and Carriers on matters relating to the Pawtucket Water Supply Board,
15 the Providence Water Supply Board, the Kent County Water Authority and the
16 Narragansett Bay Commission (NBC).

17

18 **Q. What is your relationship with the NBC?**

19 A. I have served as financial advisor to the NBC for the past 17 years. I began
20 providing financial advisory services to NBC in 1989 while working for Fleet
21 Bank. In my capacity as NBC's financial advisor, I have assisted the NBC with a
22 number of long-term borrowings from the Rhode Island Clean Water Finance
23 Agency (RICWFA), several short-term borrowings, the \$70 million Variable Rate
24 Demand Bonds issued in April 2004 and the \$45 million Open Market Revenue
25 Bond Issue in August 2005. My services have included the facilitation of the
26 credit rating process, loan structuring and other functions.

27

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

29 The NBC requested that I provide additional information regarding their request
30 to issue revenue bonds in an amount not to exceed \$43,000,000 and to specifically

1 address interest rates, principal repayment and why this type of capital financing
2 is the preferred alternative.
3

4 **Q. What has been your involvement with the development of this proposed**
5 **revenue bond issue?**

6 A. As part of my testimony in recent Division Docket D-06-63 I provided an update
7 on NBC's proposed borrowing plan. In that testimony I stated that NBC's lowest
8 cost form of financing its capital program is through subsidized low interest loans
9 from the RICWFA. NBC's financing strategy maximizes the use of the RICWFA
10 loans, however, the loan capacity is limited and is not sufficient to meet all of
11 NBC's needs. Accordingly, NBC's financing strategy incorporates the issuance
12 of open market revenue bonds to finance the "gap" between NBC needs and
13 RICWFA capacity. To date, NBC has issued \$70 million in Variable Rate
14 Demand Obligations as well as \$45 million in revenue bonds.
15

16 First Southwest has worked closely with staff from NBC to develop and maintain
17 a long-term finance model that takes into consideration NBC's capital sources and
18 uses. The model was recently updated and included as supporting information as
19 part of NBC's Compliance Filing for Debt Service in PUC Docket 3775. Based
20 upon the updated model, projected borrowing needs in fiscal years 2007 and 2008
21 total approximately \$84.520 million.
22

	FY 2007		FY 2008		Total
Revenue Bonds (RICWFA)	\$	30,000	\$	12,000	\$ 42,000
Revenue Bonds		42,520		-	42,520
Total	\$	72,520	\$	12,000	\$ 84,520

23
24
25 RICWFA has indicated that it has the capacity to loan NBC \$30 million in fiscal
26 year 2007 and \$12 million in fiscal year 2008. NBC must finance the \$42.520
27 million "gap" through the issuance of open market revenue bonds. Although the
28 gap actually occurs over two fiscal years, NBC can achieve considerable cost

1 savings through a single issue as well as take advantage of a favorable interest
2 environment.

3

4 **Q. Will the NBC maximize its use of RICWFA funding this year?**

5 A. Yes. The NBC recently applied for and received approval from the Division of
6 Public Utilities and Carriers in Docket D-06-63 to execute a \$30 million loan
7 from the RICWFA. NBC anticipates closing the loan on December 13, 2006.

8

9 **Q. Would you please address the structure and interest rate assumptions of this**
10 **borrowing?**

11 A. Based upon the model, an assessment of market conditions and a review of
12 NBC's debt policy, it was determined that it would be in NBC's best interest to
13 issue the total projected open market revenue bond needs for fiscal years 2007
14 and 2008 in a par amount of \$42.520 million. It is further recommended that the
15 bonds be issued at a fixed rate and are amortized over 30 years. The rationale for
16 this decision is as follows:

17

18 1) Long-term debt is preferred over short-term note borrowings in
19 anticipation of future RICWFA loan since it is unlikely that the RICWFA's
20 capacity will increase to "take-out" the temporary financing.

21 2) The bond yield curve is relatively flat, which means that an issuer is
22 likely to achieve favorable pricing on a long-term issue. Recent experience with
23 other Rhode Island issuers shows a spread between long-term and short-term note
24 rates of less than 100 basis points. We project that NBC's issue will have an
25 average interest rate below 4.75%. Further, the interest rate spread between a 20-
26 year bond and a 30-year bond is minimal, yet it gives NBC the flexibility to
27 structure or "wrap" the debt around loans from the RICWFA that have a
28 maximum term of 20 years.

29 3) In order to limit interest rate exposure and be consistent with the
30 recommendation of credit rating agencies, NBC's debt policy limits the amount of
31 outstanding long-term maturity variable rate bonds to 25% of the total long-term

1 fixed rate debt. As of October 30, 2006, NBC's outstanding debt is \$363.7
2 million of which \$68.6 million or 19% is variable. Although NBC could
3 potentially issue this debt in variable rate mode, we are more comfortable keeping
4 NBC's variable rate exposure at current levels while taking advantage of
5 favorable long-term rates.

6 4) A single revenue bond issue will enable NBC to take advantage of
7 economies of scale and result in savings associated with the cost of issuance since
8 NBC will incur costs for one issue instead of two.

9
10 **Q. Why is this request for an amount not to exceed of \$43,000,000?**

11 A. It is anticipated that the par amount of the bonds issued will be approximately
12 \$42.520 million including cost of issuance. A not to exceed amount gives NBC
13 some flexibility to fund its project fund while accommodating any slight
14 variations in cost of issuance.

15
16 **Q. What interest rate assumptions have been used for this revenue bond
17 issuance?**

18 A. The debt service schedules used for the coverage calculation are based upon an
19 interest rate of 5.25%. This is a conservative rate that reflects current market
20 conditions plus 50 basis points.

21
22 **Q. Does this conclude your pre-filed testimony?**

23 A. Yes.

Narragansett Bay Commission

\$43,000,000.00

Estimated Rate 5.25% (Current Market + .50%) - Rate Subject to Change

Dated January 15, 2007

Debt Service Schedule

Part 1 of 2

Date	Principal	Coupon	Interest	Total P+I
06/30/2007	-	-	-	-
06/30/2008	-	-	2,257,500.00	2,257,500.00
06/30/2009	-	-	2,257,500.00	2,257,500.00
06/30/2010	-	-	2,257,500.00	2,257,500.00
06/30/2011	-	-	2,257,500.00	2,257,500.00
06/30/2012	-	-	2,257,500.00	2,257,500.00
06/30/2013	-	-	2,257,500.00	2,257,500.00
06/30/2014	-	-	2,257,500.00	2,257,500.00
06/30/2015	-	-	2,257,500.00	2,257,500.00
06/30/2016	-	-	2,257,500.00	2,257,500.00
06/30/2017	-	-	2,257,500.00	2,257,500.00
06/30/2018	-	-	2,257,500.00	2,257,500.00
06/30/2019	-	-	2,257,500.00	2,257,500.00
06/30/2020	-	-	2,257,500.00	2,257,500.00
06/30/2021	-	-	2,257,500.00	2,257,500.00
06/30/2022	-	-	2,257,500.00	2,257,500.00
06/30/2023	-	-	2,257,500.00	2,257,500.00
06/30/2024	-	-	2,257,500.00	2,257,500.00
06/30/2025	-	-	2,257,500.00	2,257,500.00
06/30/2026	-	-	2,257,500.00	2,257,500.00
06/30/2027	-	-	2,257,500.00	2,257,500.00
06/30/2028	3,380,000.00	5.250%	2,257,500.00	5,637,500.00
06/30/2029	3,555,000.00	5.250%	2,080,050.00	5,635,050.00
06/30/2030	3,740,000.00	5.250%	1,893,412.50	5,633,412.50
06/30/2031	3,940,000.00	5.250%	1,697,062.50	5,637,062.50
06/30/2032	4,145,000.00	5.250%	1,490,212.50	5,635,212.50
06/30/2033	4,365,000.00	5.250%	1,272,600.00	5,637,600.00
06/30/2034	4,595,000.00	5.250%	1,043,437.50	5,638,437.50
06/30/2035	4,835,000.00	5.250%	802,200.00	5,637,200.00
06/30/2036	5,090,000.00	5.250%	548,362.50	5,638,362.50
06/30/2037	5,355,000.00	5.250%	281,137.50	5,636,137.50
Total	\$43,000,000.00	-	\$58,515,975.00	\$101,515,975.00

NARRAGANSETT BAY COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE PERIOD ENDING OCTOBER 31, 2006

OPERATING REVENUE	
User fees, residential	\$15,399,465.73
User fees, commercial and industrial	13,033,410.88
Sewer connection fees	98,242.00
Pretreatment fees	397,298.35
Environmental enforcement fees	37,524.55
Septage income	139,511.28
Miscellaneous	2,947.09
BOD/TSS Surcharge	41,325.91
Total Operating Revenues	<u>29,149,725.79</u>
OPERATING EXPENSES	
Personnel services	4,955,304.02
Operating and maintenance	2,128,333.96
Utilities	926,522.49
Supplies	329,895.24
Professional services	797,227.12
Depreciation and amortization	2,134,749.32
Miscellaneous	189,596.85
Total Operating Expenses	<u>11,461,629.00</u>
OPERATING INCOME	<u>17,688,096.79</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	695,139.06
Grant revenue	9,264.30
Interest expense	(3,175,445.52)
Late charge penalty	143,622.28
Miscellaneous nonoperating revenue	117,147.44
Bonds and notes issue cost	(4,905.00)
Total Nonoperating Revenue (Expenses)	<u>(2,215,177.44)</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	15,472,919.35
Capital Contribution	<u>5,626.00</u>
CHANGE IN NET ASSETS	15,478,545.35
TOTAL NET ASSETS, BEGINNING	<u>256,627,965.32</u>
TOTAL NET ASSETS, ENDING	<u><u>\$272,106,510.67</u></u>

NARRAGANSETT BAY COMMISSION
STATEMENT OF NET ASSETS
OCTOBER 31, 2006

CURRENT ASSETS	
Cash and cash equivalents	\$12,851,315.83
Accounts receivable sewer use (net of allowance)	18,738,942.02
Accounts receivable sewer use unbilled	14,081,846.61
Receivables, other	14,498.06
Prepaid expense	252,081.82
Total Current Assets	<u>45,938,684.34</u>
NONCURRENT ASSETS	
Restricted assets	
Cash, environmental enforcement	119,560.80
Cash and cash equivalents, restricted	8,888,341.56
Cash and cash equivalents, restricted for the acquisition and construction of capital assets	14,029,828.88
Total Restricted Assets	<u>23,037,731.24</u>
Capital Assets	
Land	2,754,407.48
Plant and Equipment	72,604,787.56
Capital projects completed	240,498,484.33
Construction in Progress	349,755,033.62
	<u>665,612,712.99</u>
Less accumulated depreciation	(96,660,791.61)
Net Capital Assets	<u>568,951,921.38</u>
Other Assets	
Organization costs (net of accumulated depreciation)	74,723.44
Bond and loan issuance costs (net of accumulated amortization)	4,981,155.86
Total Other Assets	<u>5,055,879.30</u>
Total Noncurrent Assets	<u>597,045,531.92</u>
TOTAL ASSETS	<u>642,984,216.26</u>

**NARRAGANSETT BAY COMMISSION
STATEMENT OF NET ASSETS
OCTOBER 31, 2006**

CURRENT LIABILITIES

Accounts and Contracts Payable	\$2,540,759.28
Accrued interest payable	1,265,652.70
Other accrued expenses	2,023,030.74
Unearned revenue	480,437.48
Total Current Liabilities	<u>6,309,880.20</u>

NONCURRENT LIABILITIES

Long-term loans payable, net	247,669,035.17
Long-term leases payable, net	834,283.92
Long-term debt	116,064,506.30
Total Noncurrent Liabilities	<u>364,567,825.39</u>

TOTAL LIABILITIES

370,877,705.59

NET ASSETS

Invested in capital assets, net of related debt	204,384,095.99
Restricted, environmental enforcement	119,560.80
Unrestricted	67,602,853.88
TOTAL NET ASSETS	<u>\$272,106,510.67</u>