
EXETER

ASSOCIATES, INC.

CONSULTING ECONOMISTS
10480 Little Patuxent Parkway
Suite 300
Columbia, Maryland 21044
(410) 992-7500
(410) 992-3445 FAX
topcat@exeterassociates.com

Thomas S. Catlin
Steven L. Estomin
Jerome D. Mierzwa
Christina R. Mudd
Kevin L. Porter
Dwight D. Etheridge

REF: 3499

November 4, 2013

Memorandum

To: Advocacy Section, Rhode Island Division of Public Utilities and Carriers

From: Thomas S. Catlin

Subject: The Narragansett Bay Commission (NBC)
Request for Division Approval to Enter into Long-Term Debt
And Issuance of Revenue Bonds Not to Exceed \$90,000,000
Docket No. D-13-143

On October 11, 2013, NBC filed a Request for Approval to Enter into Long-Term Debt and Issuance of Revenue Bonds Not to Exceed \$90 million. NBC anticipates that the debt to be issued will be comprised of a \$25 million State Revolving Fund (SRF) loan from the Rhode Island Clean Water Finance Agency (RICWFA) and up to \$65 million of open market bonds. I have reviewed NBC's filing, along with the accompanying testimony and exhibits and the responses to Division discovery requests, to verify NBC's debt service requirements and to ensure that sufficient revenues are available to meet the debt service requirements.

In NBC's recent General Rate Filing in Docket No. 4364, NBC sought an increase in revenues that would allow it to meet the debt service requirements associated with \$52 million of new debt in FY 2014, including an SRF loan of \$12 million and \$40 million of open market

bonds. Since that time, additional SRF funds have become available, enabling NBC to increase its SRF borrowing to \$25 million. Although NBC is seeking authorization to borrow up to \$65 million through open market bonds, it is currently projecting that it will borrow approximately \$60 million through open market bonds to meet its capital funding requirements. Because the RICWFA funds will not be available until April 2014, NBC is proposing to divide its revenue bond issuances into separate fixed rate and variable rate components. This will be accomplished by borrowing approximately \$33.4 million (\$30 million par value) through fixed rate bonds in November 2013 to take advantage of current low interest rates and borrowing an additional \$26.4 million through variable rate bonds in the spring of 2014.

NBC is also proposing to modify the amortization schedule of its 2008 Series A Refunding Bonds by deferring principal payments until 2023. This restructuring of the 2008 Series A Refunding Bonds is necessary to allow NBC to meet the coverage requirements on the new debt being proposed in this docket without requiring additional revenue increases. This restructuring will also help levelize NBC's overall debt service, which tends to be frontloaded because of the repayment requirements associated with SRF loans.

Based on the information presented in this filing, the allowance for debt service authorized by the Public Utilities Commission in Docket No. 4364 will be sufficient to meet NBC's debt service on the \$25 million of SRF borrowing and up to \$65 million of open market bonds planned for FY 2014, predicated upon the restructuring of the 2008 Series A bonds as proposed by NBC.