

IN RE: Narragansett Bay Commission :
Application to Refund Bonds : Docket No. D-14-111

The NBC proffered pre-filed direct testimony from two witnesses in support of its application. The witnesses were identified as Ms. Karen L. Giebink, the NBC's Director of Administration and Finance; and Mr. William J. Fazioli, Senior Managing Consultant with Public Financial Management, Inc.

("PFM"). Additionally, during the hearing, the NBC also proffered its bond counsel, Karen S.D. Grande, Esq., to respond to certain bond "refunding" questions from the hearing officer.

Ms. Giebink testified that the NBC is requesting Division approval to refund the "Narragansett Bay Commission Wastewater System Revenue Bonds 2005, Series A (2005 Series A Bonds)." Ms. Giebink testified that NBC has determined that current market conditions make it "economically advantageous" to refund the bonds. Ms. Giebink related that the proposed refunding "is projected to result in savings to ratepayers of nearly \$6.0 million with net present value savings of approximately \$4.1 million."¹

Ms. Giebink next testified that NBC's Board of Commissioners passed a Resolution authorizing the refunding of all or a portion of the outstanding 2005 Series A Bonds at their February 7, 2013 meeting.² Ms. Giebink further testified that NBC has sufficient coverage to meet the annual debt service of the refunding bonds, as the debt service of the refunding bonds is less than the existing debt service on the bonds to be refunded. Ms. Giebink proffered a coverage schedule with her pre-filed direct testimony.³

Ms. Giebink addressed the benefits that NBC's ratepayers will derive from the proposed refunding. She explained that because NBC "is still facing a significant capital program that will require additional financing and rate increases to support future debt issues" the "lower debt service and associated

¹ NBC Exhibit 1, Giebink Testimony, p. 1.

² Id., p. 2 and Giebink Exhibit KG-1.

³ Id., and Giebink Exhibit KG-2.

coverage resulting from this refunding will help mitigate the magnitude of the rate increase required to support that transaction.”⁴

In her concluding comments, Ms. Giebink related that the current schedule contemplates the receipt of a Standard and Poor’s rating by September 19, 2014. She added that the working group is beginning to prepare the documents including the Preliminary Official Statement (“POS”), which is scheduled for mailing on September 17, 2014. Ms. Giebink also testified that Division approval is needed prior to the mailing of the POS. She also indicated that the bond pricing is scheduled for September 24, 2014 with the closing on October 9, 2014.⁵

Before discussing the instant refunding proposal, Mr. William Fazioli offered some background information on PFM and on the independent financial advisory services that PFM provides to public entities. Mr. Fazioli related that over the last 38 years PFM has grown into a national firm with over 500 employees in 34 offices across the United States. He testified that for the “16th consecutive year, PFM has maintained its position as the number one financial advisor in the industry, providing financial advisory services in more than 768 transactions for a total par amount in excess of \$46 billion in 2013.” Mr. Fazioli added that in terms of wastewater issuers, “PFM has been the top ranked financial advisor in this sector for several years as well while representing other large wastewater operators including the Massachusetts

⁴ Id.

⁵ Id.

Water Resources Authority and the DC Water and Sewer District.”⁶ Mr. Fazioli testified that PFM was appointed in 2012 to serve as Financial Advisor to the NBC by its Board of Commissioners.

With respect to the instant matter, Mr. Fazioli indicated that he has been asked to provide testimony in support of NBC’s application for Division approval to refund its 2005 Series A revenue bonds, which Mr. Fazioli testified “is expected to be economically advantageous to NBC.” Mr. Fazioli explained that based on current market conditions, “a refunding of the 2005 issue generates gross budgetary savings of nearly \$6.0 million and net present value debt service savings of approximately \$4.1 million or 9.22% of refunded bond principal.”⁷ Mr. Fazioli testified that the “industry standard” for determining when it is economically advantageous to refund a bond issue “is 3.00% net present value savings;” in this case “the proposed refunding bond issue is 9.22%.”⁸

Mr. Fazioli testified that the 2005 Series A bonds are callable on or after August 15, 2015 at 100% of the par amount. He related that NBC would issue refunding bonds in the current market and that the proceeds of the refunding bonds would be set aside in an escrow account. Mr. Fazioli explained that on August 15, 2015 those proceeds would then be applied toward the repay of the outstanding 2005 bonds. Mr. Fazioli testified that the NBC will no longer be required to make any additional payments on the 2005 bonds as all payments

⁶ NBC Exhibit 1, Fazioli Testimony, p. 1.

⁷ Id., p. 2.

⁸ Id.

until the call date will be made out of the escrow fund. Regarding the lower debt service payments that the NBC will be required to make on the new refunding bonds, Mr. Fazioli proffered a chart that illustrates the NBC's savings over time. The chart reflects total gross savings of \$5,977,896 and present value savings of \$4,144,473 through June 30, 2036.⁹

Mr. Fazioli next provided the details of his interest rate assumptions for the proposed refunding issue. He related that the proposed refunding bonds will mature on August 1, 2035, which he noted, is the same maturity date as the 2005 bonds. He testified that based on current rates, the proposed interest rates on the refunding bonds range from 2.98% to 3.60%. In contrast, Mr. Fazioli noted that the interest rates on the outstanding 2005 bonds average approximately 4.34%.¹⁰

Mr. Fazioli next provided an update on current market rates, the yield curve, NBC's credit rating and how these factors create this opportunity for NBC. He testified that interest rates remain relatively low and that the yield curve for a "AA-" issuer like NBC provides a advantageous refunding opportunity. Mr. Fazioli also offered a graphic to demonstrate the variations in the yield curve for issuers with differing credit ratings.¹¹

In his concluding comments, Mr. Fazioli testified that in order for NBC to take advantage of the current low interest rates and overall favorable market conditions, it wishes to sell the proposed refunding bonds in mid-September of

⁹ Id., p. 3.

¹⁰ Id.

¹¹ Id.

this year. For this to happen, Mr. Fazioli opined that Division approval must be received by early September.¹²

In her introductory remarks, Karen S. D. Grande, Esq. related that she has served as bond counsel to the NBC for many years, and has assisted the NBC with the issuance of its revenue bonds. Ms. Grande responded to a number of questions that the hearing officer posed relative to the way the instant application is structured. Specifically, the hearing officer questioned why the application was structured as a request for Division approval to “refund” the 2005 Series A Bonds rather than as a request for approval to borrow funds for the purpose of “refinancing” the previous 2005 bond issue. The questions were precipitated from the hearing officer’s observation that the instant application lacked comprehensive details associated with the concomitant borrowing necessary to refund the 2005 Series A Bonds. Ms. Grande clarified that the term “refunding,” in bond parlance, denotes an associated borrowing through which the refunding is effectuated. Ms. Grande, and Mr. Fazioli, also answered questions concerning the terms and conditions attached to the refunding-associated borrowing.¹³

After a brief cross-examination of the NBC’s witnesses, the Advocacy Section stated for the record that it was satisfied from the evidence presented, that the NBC had met the requisite burden of proof set forth in R.I.G.L. §39-3-15, et seq. and that the proposed refunding is in the public interest.

¹² Id., p. 4.

¹³ See transcript.

FINDINGS


Predicated on a thorough examination of the record in this matter, the Division finds that the NBC's application seeking approval to refund its 2005 Series A Revenue Bonds is reasonable and in the best interest of ratepayers.

Now, therefore, it is


(21605) ORDERED:

1. That the Narragansett Bay Commission's August 8, 2014 application seeking approval to refund its 2005 Series A Revenue Bonds, is hereby approved as filed.
2. That the Division hereby makes this approval contingent upon the NBC's use of the debt service allowance previously approved by the Public Utilities Commission, or if subsequently required, by additional debt service allowances approved by the Public Utilities Commission.

DATED AND EFFECTIVE AT WARWICK, RHODE ISLAND ON SEPTEMBER 4, 2014.


John Spirito, Jr., Esq.
Hearing Officer

APPROVED:


Thomas F. Ahern
Administrator