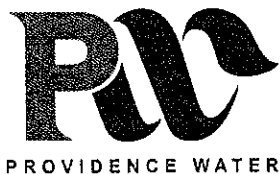


**APPLICATION OF  
THE PROVIDENCE WATER SUPPLY BOARD FOR  
AUTHORITY TO BORROW FROM THE DRINKING WATER  
STATE REVOLVING FUND IN AN AMOUNT OF UP TO  
\$17,000,000**

January 2017

D-17-\_\_\_\_\_



January 13, 2017

Luly Massaro,  
Clerk of The Division of Public Utilities and Carriers  
89 Jefferson Boulevard  
Warwick, RI 02888

The Hon. Jorge O. Elorza  
Mayor  
Ricky Caruolo  
General Manager

RE: Application of Providence Water for Authority to Borrow up to  
\$17,000,000 from the RICWFA Docket No. D-17-\_\_\_\_\_

Dear Ms. Massaro:

---

#### BOARD OF DIRECTORS

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Joseph D. Cataldi  
Vice Chairperson

Michael J. Correia  
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Sabina Matos  
Councilperson

Lawrence J. Mancini  
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Andy M. Andujar  
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Kerri Lynn Thurber  
Member

Carissa R. Richard  
Secretary

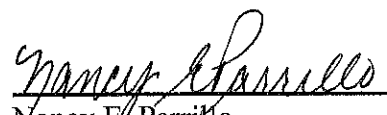
William E. O'Gara, Esq.  
Legal Advisor

Enclosed for filing are an original and four copies of Providence Water's request for authority to borrow up to \$17,000,000 from the RI Infrastructure Bank.

The enclosed application does not include the Department of Health's rules and regulations for the Drinking Water State Revolving Fund or the RI Infrastructure Bank loan policies and procedures. However, we will provide these items if the Division so advises.

Providence Water respectfully requests an expedited review of the enclosed application. If you have any questions, contact me at 521-6300 ext.7238, or our Attorney Michael McElroy, Esq., at 351-4100.

Providence Water Supply Board

  
Nancy E. Parrillo  
Senior Manager of Finance

---

#### 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**

552 Academy Avenue  
Providence, RI 02908

[www.provwater.com](http://www.provwater.com)

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cc: R. Caruolo  
G. Giasson  
P. Pallozzi  
M. Deignan-White  
T. Massaro  
M. Gurghigian  
K. Grande, Esq.  
M. McElroy, Esq.  
L. Wold, Esq.  
File

## **PROVIDENCE WATER SUPPLY BOARD**

Application for Authority to Borrow from the Rhode Island Infrastructure Bank in an amount  
of up to \$17,000,000

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1. Application for Authority to Borrow
2. Proposed Notice of Filing and Public Hearing
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4. Statement in Accordance with RIGL § 39-3-17
5. Pre-Filed Testimony of Nancy Parrillo
  - Exhibit I. Providence Water Board approval to request City to authorize bonds.
  - Exhibit II. Ordinance approved by the City authorizing up \$18 million of borrowing.
  - Exhibit III. Present and Proforma capital structure.
  - Exhibit IV. Estimated Debt / loan schedules from First Southwest.
  - Exhibit V. RI Infrastructure Bank Commitment letter.
  - Exhibit VI. RI Dept. of Health Certificate of Approval.
- Attestation Under Rule 14
6. Pre-Filed Testimony of Gregg Giasson
7. Pre-Filed Testimony of Maureen Gurghigian
8. Appendix
  - A. Providence Water Supply Board Resolution Authorizing the Reimbursement of Expenditures and Issuance of Debt for Water Main Project.
  - B. Comparison of Interest Rates
  - C. Audited Financial Statements FYE 6/30/2015.

STATE OF RHODE ISLAND  
DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN RE: PROVIDENCE WATER SUPPLY BOARD

DOCKET NO. D-17-\_\_

**R.I.G.L. § 39-3-15**  
**APPLICATION OF THE PROVIDENCE WATER SUPPLY BOARD**  
**FOR AUTHORITY TO BORROW FROM**  
**THE RHODE ISLAND INFRASTRUCTURE BANK**

In the above-entitled cause, the Providence Water Supply Board represents that:

1. Providence Water 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 Drinking Water State Revolving Fund up to \$17,000,000 primarily to clean, line and/or replace water mains at an interest rate not to exceed 4.5%.
3. The borrowing will be provided by the RI Infrastructure Bank, pursuant to a resolution of the Providence Water Supply Board dated April 20, 2016.
6. The loan will be secured by the Providence Water Enterprise Fund Revenues under the Providence Water Supply Board Bond Indenture.
7. The borrowing may reimburse Providence Water for project costs incurred from inception of the project until actual funding date.
8. In accordance with Section 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 Gregg Giasson P.E, Nancy Parrillo, and Maureen Gurghigian of First Southwest.
9. In accordance with Section 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.

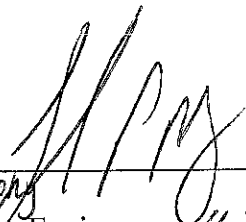
WHEREFORE, the Providence Water Supply Board respectfully requests that the Division of Public Utilities and Carriers authorize and consent to Providence Water borrowing up to \$17,000,000 from the Drinking Water State Revolving Fund.-----

PROVIDENCE WATER SUPPLY BOARD

BY:   
Ricky Caruolo  
GENERAL MANAGER

STATE OF RHODE ISLAND  
COUNTY OF PROVIDENCE

Subscribed and sworn before me this 12<sup>th</sup> day of January, 2017.

Notary Public   
Joseph P. Murphy  
My Commission Expires: 4-7-18  
Lic 57859

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN RE: PROVIDENCE WATER SUPPLY BOARD : Docket No. D-17-\_\_\_\_\_  
APPLICATION FOR BORROWING AUTHORITY

**NOTICE OF FILING AND PUBLIC HEARING**

Pursuant to the provisions of the R.I.G.L. §39-3-15 and §39-3-17, the 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 approval to obtain financing in the amount of up to \$17 million through revenue bonds to be sold by RI Infrastructure Bank for the Rhode Island Safe Drinking Water State Revolving Fund. The proceeds from the sale of the bonds will be used to clean, line, and/or replace water mains located throughout the Providence Water distribution system.

The application is on file and may be examined at the office of the Division and at the office of the Providence Water Supply Board, 552 Academy Avenue, 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 780-2107 seventy-two hours in advance of hearing date.

Macky McCleary, Administrator

\_\_\_\_\_, 2017

## Certificate of Service

I hereby certify that a true copy of the Application of the Providence Water Supply Board for Authority to borrow from the RI Infrastructure Bank in an amount of \$17,000,000, with all supporting documentation, was mailed by first class mail, postage prepaid, to the Attorney General, State of Rhode Island, 150 South Main Street, Providence, RI 02903, Attention: Leo Wold, Esq., Chief of the Regulatory Unit, on January 20, 2017.

A handwritten signature in black ink, appearing to read "Mary L. Deignan-White", with a stylized flourish at the end.

Mary L. Deignan-White  
Senior Manager of Regulatory  
552 Academy Avenue  
Providence, RI 02908  
401-521-6300 Ext.7217  
MaryDW@Provwater.com

STATE OF RHODE ISLAND  
DIVISION OF PUBLIC UTILITIES AND  
CARRIERS

IN RE: PROVIDENCE WATER SUPPLY BOARD      DOCKET NO. D-17-\_\_\_\_\_

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

Xaykham Khamasyvoravong, 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 the amount of up to Seventeen Million dollars (\$17,000,000).
2. The debt will be incurred primarily for the purpose of cleaning, lining and/or replacing water mains within the system.
3. The total estimated project costs including cost of issuance, loan origination, etc., that will be borrowed are not to exceed Seventeen Million dollars (\$17,000,000).
4. Attached hereto is the latest Audited Financial Statement of the Providence Water Supply Board, showing the assets and liabilities of the utility.

Xaykham Khamasyvoravong  
Xaykham Khamasyvoravong, Chairman

Carissa R. Richard  
Carissa R. Richard, Secretary

STATE OF RHODE ISLAND  
COUNTY OF PROVIDENCE

Subscribed and sworn before me this 17<sup>th</sup> day of January, 2017.

Robert Rodriguez  
Notary Public  
My Commission Expires: 12/11/18 757283



PROVIDENCE WATER SUPPLY BOARD

Testimony of Nancy E. Parrillo

Before the

RI Division of Public Utilities and Carriers

In support of Providence Water Supply Board's

APPLICATION FOR AUTHORIZATION TO BORROW UP TO  
\$17,000,000 FROM THE  
RHODE ISLAND INFRASTRUCTURE BANK

January, 2017  
Docket No. D-17- \_\_\_\_\_

1 Providence Water Supply Board

2 Testimony of

3 Nancy E. Parrillo

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

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

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

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

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

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

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

20 A. To provide information in support of Providence Water's application to borrow up to \$17  
21 million from the Rhode Island Infrastructure Bank (RIIB). The funds will be used to  
22 continue Providence Water's work on improvements to our distribution system and  
23 appurtenances, focusing on cleaning, relining, repair and replacement of water mains,  
24 transmission lines, service lines and valves, and related expenses throughout the

1 Providence Water system in accordance with our agreement with the RI Department of  
2 Health (RIDOH).

3 **Q. Is this amount sufficient to cover the construction costs?**

4 A. This amount of \$17 million is estimated to be sufficient to cover the construction costs for  
5 this portion of the project as well as the cost of issuance, origination fee to the RIIB, and  
6 required debt service reserve fund. Based on the estimated proforma debt service schedules  
7 that were calculated based on current market factors (see Exhibit 4), we are estimating a  
8 total principal amount of \$16,399,200. However, this amount is subject to change at the  
9 time the bonds are sold and we need to be sure we net the appropriate construction fund  
10 amount, so we are seeking authority to borrow up to \$17 million.

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

12 A. In order to pay the debt service, Providence Water has requested a revenue increase of  
13 approximately \$1,400,000 as part of Providence Water's overall rate increase (Docket  
14 4618) currently pending with the PUC.

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

16 A. The increase will impact all customers. In the current filing pending before the  
17 Commission, the overall requested revenue increase to our cost of services is 11.6% or  
18 \$7,911,953. The \$1.4 million needed to cover the debt service is 17.7% of the new revenue.  
19 This will be allocated to all customers – retail, wholesale, and fire service - based on the  
20 rate design and cost allocators developed in this current rate filing and approved by the  
21 Commission.

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

1 A. Yes, attached as **Exhibit I** is a Certificate of the Secretary of the Providence Water Supply  
2 Board stating that at the April 20, 2016 Board Meeting, the Board authorized the General  
3 Manager to seek approval of the Providence City Council for financing from the RI  
4 Infrastructure Bank for an amount not to exceed \$18 million. Also, attached as **Exhibit II**,  
5 is an ordinance approved by the City on August 3, 2016 that authorizes the borrowing from  
6 the RI Infrastructure Bank for an amount not to exceed \$18 million.

7 **Q. Have you presented a proforma capital structure showing the effect of the bond**  
8 **issuance as required by Section 14 of the Rules of Practice and Procedure of the**  
9 **Division?**

10 Yes, a present and proforma capital structure showing the effects of the bond issue is shown  
11 at **Exhibit III**. Our projected debt to net property, plant and equipment ("debt to plant")  
12 with this issue would be 39.88% (This percentage will change with asset values capitalized  
13 at year end). Our financial advisor has indicated that rating agencies consider a ratio of  
14 debt to plant less than 40% to be low and of 40% to 60% to be moderate.

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

16 A. As shown on **Exhibit IV**, page 2, the estimated \$16.4 million of available bond proceeds  
17 will be applied to:

18 ~ \$1,172,794.36 will be deposited with the trustee for a debt reserve fund; this represents  
19 one's year's debt service cost.

20 ~ A 1% loan origination fee of \$163,992 will be paid to RI Infrastructure Bank.

21 ~ An estimated \$62,413.64 will be paid for costs of issuance incurred by Providence Water;  
22 this includes legal, rating and financial consulting fees.

1 ~The remaining funds totaling approximately \$15 million will be available for funding the  
2 work to be performed.

3 These numbers are subject to change on the date of the sale, but these are close estimates  
4 assuming the market is approximately the same as it is today.

5 The issuance of the bonds by RI Infrastructure Bank is anticipated in early spring of 2017.

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

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

12 ~ An estimated \$16.4 million, 20-year term borrowing through the RI Infrastructure Bank.

13 ~ Bonds will be funded through the Safe Drinking Water State Revolving Fund (SDWSRF)  
14 and will have an interest rate subsidy of 25%.

15 ~ The interest rate of the loan will be based on Providence Water's AA- rating, less a 25%  
16 discount. An annual administrative fee of .5% of the outstanding loan balance will  
17 be paid to RI Infrastructure Bank. The estimated effective interest rate is  
18 approximately 2.848%. The projected interest rate does not include the .5% annual  
19 administrative fee of RI Infrastructure Bank [See Exhibit IV, page 2.]

20 ~ One year's debt service cost (approximately \$1,172,794.36) will be deposited to a Debt  
21 Service Reserve Fund from the proceeds of the borrowing.

1 ~ There must be sufficient annual net revenues for each of the three full fiscal years  
2 following the issuance of the bonds to provide for 125% of the debt service  
3 requirements of such fiscal years.

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

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

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

9 A. Yes it has. See **Exhibit V**.

10 **Q. Has Providence Water received a Certificate of Approval from the RI Department of**  
11 **Health?**

12 A. Yes. The Certificate of Approval was received from the RI Department of Health on April  
13 25, 2008. It is attached as **Exhibit VI**.

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

15 A. Yes. Although the RI Infrastructure Bank will not issue bonds until spring of 2017,  
16 Providence Water is asking for approval from the Division so that we may include it as  
17 documentation in support of our rate relief request for this borrowing in the current rate  
18 filing in front of the Commission. Hearings begin January 24, 2017.

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

20 A. Yes.

STATE OF RHODE ISLAND DIVISION OF PUBLIC UTILITIES AND CARRIERS

DOCKET No. 17 - \_\_\_\_\_

ATTESTATION UNDER RULE 14  
OF THE RULES OF PRACTICE AND PROCEDURE  
OF THE DIVISION OF PUBLIC UTILITIES AND CARRIERS

I, Nancy E. Parrillo, in conformance with Rule 14 of the Rules of Practice and Procedure of the Division of Public Utilities and Carriers, hereby attest under oath that the facts contained in my direct testimony with exhibits and supporting documents are true and correct to the best of my knowledge, information, and belief. All changes and differences between books and test year data and any changes in the manner of recording said data during the test year have been expressly noted.

Nancy E. Parrillo  
Nancy E. Parrillo

STATE OF RHODE ISLAND  
PROVIDENCE COUNTY

Subscribed and sworn to me this 12 day of January, 2017.

Amy Dinoble  
Notary Public

My commission expires: 6-24-17 #758667





**RESOLUTION  
OF THE  
PROVIDENCE WATER SUPPLY BOARD**

A Resolution of the City of Providence Water Supply Board authorizing the General Manager to petition the Division of Public Utilities and Carriers to authorize long term borrowing and to provide an effective date.

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

The Hon. Jorge O. Elorza  
Mayor

Ricky Caruolo  
General Manager

WHEREAS, the Board desires to make certain improvements to the Board's distribution system and appurtenances thereto, including but not limited to the cleaning, relining, repair and replacement of water mains, transmission lines, service lines and valves (the "Project"); and

WHEREAS, it is the intent of the Board to borrow funds in an amount not to exceed eighteen million dollars (\$18,000,000) for the Project.

NOW, THEREFORE, BE IT RESOLVED:

❖ That the Board authorizes the General Manager to petition the Division of Public Utilities and Carriers to authorize long term borrowing, and to authorize the City and the Board 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 April 20, 2016 by vote of the members of the Providence Water Supply Board present.

**BOARD OF DIRECTORS**

Xaykham Khamsyvoravong  
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Joseph D. Cataldi  
Vice Chairperson

Michael J. Correla  
Councilperson

Sabina Matos  
Councilperson

Lawrence J. Mancini  
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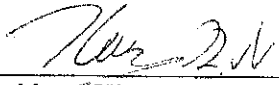
**(401) 521-6300**

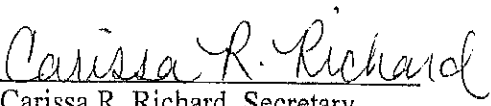
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Xaykham Khamsyvoravong, Chairman  
Providence Water Supply Board

  
Carissa R. Richard, Secretary  
Providence Water Supply Board



**City of Providence**  
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**CHAPTER 2016-32**

**No. 317 AN ORDINANCE OF THE CITY OF PROVIDENCE APPROVING IMPROVEMENTS TO THE PROVIDENCE WATER SUPPLY BOARD'S DISTRIBUTION SYSTEM AND APPURTENANCES THERETO, INCLUDING, BUT NOT LIMITED TO THE CLEANING, RELINING, REPAIR AND REPLACEMENT OF WATER MAINS, TRANSMISSION LINES, SERVICE LINES AND VALVES, AND ALL ATTENDANT EXPENSES AND APPROVING THE FINANCING THEREOF BY THE ISSUANCE OF WATER REVENUE BONDS AND NOTES THEREFOR IN AN AMOUNT NOT TO EXCEED \$18,000,000**

Approved August 3, 2016

*Be it ordained by the City of Providence:*

BE IT ORDAINED BY THE CITY OF PROVIDENCE THAT:

SECTION 1. A sum not to exceed Eighteen Million Dollars (\$18,000,000) is appropriated for improvements to the Providence Water Supply Board ("Providence Water") distribution system and appurtenances thereto, including but not limited to cleaning, relining, repair and replacement of water mains, transmission lines, service lines and valves (the "Project"), including funding a debt service reserve fund and costs of issuance. The period of usefulness of the improvements financed as part of the Project is expected to be not less than forty (40) years.

SECTION 2. In accordance with Chapter 46-12.8 of the Rhode Island General Laws, the City Treasurer and the Mayor are hereby authorized to borrow an amount not exceeding Eighteen Million Dollars (\$18,000,000) from the Rhode Island Infrastructure Bank, and to evidence such loan, such officers are hereby authorized to issue and refund on behalf of the City, in an amount not exceeding Eighteen Million Dollars (\$18,000,000) water revenue bonds (the "Bonds") of the City, at one time, or from time to time in order to meet the foregoing appropriation.

SECTION 3. The said officers from time to time may issue and refund not exceeding \$18,000,000 interest bearing or discounted water revenue notes (the "Notes") in anticipation of the issue of said Bonds.

SECTION 4. The Bonds and Notes shall be payable solely from revenues of the Providence water supply system. The City may issue bonds, notes, or other obligations on a parity with these Bonds. The manner of sale, amount, denominations, maturities, conversion or registration privileges, interest rates, medium of payment, and other terms, conditions and details of the Bonds or Notes may be fixed by the officers authorized to sign the Bonds or Notes. The net debt of the City is not affected by the issuance of the Bonds or Notes and the Bonds and Notes authorized hereby will be within all debt and other limitations prescribed by the Constitution and the laws of Rhode Island.

SECTION 5. Pending the issuance of the Bonds under Section 2 hereof or pending or in lieu of the issue of Notes under Section 3 hereof, the General Manager of Providence Water may expend funds from the Water Fund of the City for the purposes specified in Section 1 hereof. Any advances made under this section shall be repaid without interest from the proceeds of the Bonds or Notes issued hereunder or from the proceeds of applicable federal or state assistance or from other available funds.

**SECTION 6.** The City Treasurer, the Mayor and the General Manager of Providence Water are also authorized, empowered and directed, on behalf of the City, to: (i) execute, acknowledge and deliver a Supplemental Indenture (the "Supplemental Indenture") by and between the City and U. S. Bank, National Association, as trustee (the "Trustee") amending and supplementing the Trust Indenture dated June 5, 2008 by and between the City and the Trustee (as supplemented, the "Indenture") relating to the Bonds and any and all other loan agreements, documents, including disclosure documents for investors, certificates or instruments necessary to effectuate such borrowing; (ii) amend, modify or supplement the Indenture, the Bonds or Notes and any and all other loan agreements, documents, certificates or instruments at any time and from time to time, in such manner and for such purposes as such officers shall deem necessary, desirable or advisable; (iii) direct the Trustee with regard to investments of trust funds pursuant to the Trust Indenture, and (iv) do and perform all such other acts and things deemed by such officers to be necessary, desirable or advisable with respect to any matters contemplated by this Ordinance.

**SECTION 7.** The City Treasurer, the Mayor and the General Manager of Providence Water are hereby authorized to deliver the Bonds or Notes to the purchaser and said officers are hereby authorized and instructed to take all actions, on behalf of the City and Providence Water, necessary to ensure that interest on the Bonds or Notes will be excludable from gross income for federal income tax purposes and to refrain from all actions which would cause interest on the Bonds or Notes to become subject to federal income taxes.

**SECTION 8.** The Director of Finance, the Mayor and the General Manager of Providence Water are authorized to take all actions necessary to comply with federal tax and securities laws including Rule 15c2-12 of the Securities and Exchange Commission (the "SEC Rule") and to execute and deliver one or more Disclosure Certificates in connection with the Bonds or Notes in the form as shall be deemed advisable by the Director of Finance, the Mayor and the General Manager of Providence Water in order to comply with the SEC Rule. The City hereby covenants and agrees that it will comply with and carry out all of the provisions of the Disclosure Certificates, as they may be amended from time to time. Notwithstanding any other provision of this Ordinance or the Bonds or Notes, failure of the City or Providence Water to comply with a Disclosure Certificates shall not be considered an event of default; however, any Bondholder or Noteholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or Providence Water to comply with its obligations under this Section and under the Disclosure Certificate.

**SECTION 9.** This Ordinance shall take effect upon passage.

IN CITY COUNCIL  
JUL 21 2016

FIRST READING  
READ AND PASSED

*[Signature]*  
CLERK

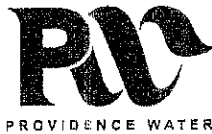
IN CITY  
COUNCIL

AUG 02 2016  
FINAL READING  
READ AND PASSED

*[Signature]*  
PRESIDENT  
*[Signature]*  
CLERK

I HEREBY APPROVE.

*[Signature]*  
Mayor  
Date: 8/3/16



June 30, 2016

Lori L. Hagen, City Clerk  
City Hall  
Providence, RI 02903

RE: Providence Water's Ordinance for Improvements to and Financing of  
Water Mains, Transmission Lines, Service Lines and Valve and Attendant Expenses

The Hon. Jorge O. Elorza  
Mayor

Ricky Caruolo  
General Manager

Dear Ms. Hagen:

Attached is the Providence Water Supply Board (PW) Ordinance for Improvements  
to and Financing of Water Mains, Transmission Lines, Service Lines and Valve and  
Attendant Expenses.

**BOARD OF DIRECTORS**

Xaykham Khamayvoravong  
Chairperson

Joseph D. Cataldi  
Vice Chairperson

Michael J. Correia  
Councilperson

Sabina Matos  
Councilperson

Lawrence J. Mancini  
Ex-Officio

Andy M. Andujar  
Member

Kerri Lynn Thurber  
Member

Carissa R. Richard  
Secretary

William E. O'Gara, Esq.  
Legal Advisor

The Water Supply Board approved this borrowing at their meeting held on April 20,  
2016. This Water System Improvement Ordinance is being sponsored by  
Councilman Correia and Councilwoman Matos. Please have this Ordinance put on  
the docket for the July 7, 2016 City Council meeting.

A word file of the Ordinance will be emailed to you by 10a.m. on July 1, 2016. The  
hard copy will be delivered. If you have any questions, or need any additional  
information my extension is 7238.

Respectfully,

Providence Water Supply Board

*Nancy H. Parrillo*  
Nancy H. Parrillo  
Senior Manager - Finance

**MEMBER**

Rhode Island Water Works Assn.  
New England Water Works Assn.  
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Water Research Foundation

An EPA WaterSense Partner

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Providence, RI 02908

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Enclosures

cc:

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L. Mancini  
R. Caruolo  
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## EXHIBIT III

**PROVIDENCE WATER  
CAPITALIZATION  
6/30/2016**

		<u>Due</u>	<u>Interest Rate</u>	<u>Actual Outstanding (1)</u>	<u>Pro-Forma Amount</u>
<b><u>Long Term Debt:</u></b>					
Clean Water Revenue Bonds 2002	(2)	9/1/2021	3.61%	\$ 924,704	\$ 924,704
Clean Water Revenue Bonds 2008A	(3)	9/1/2029	2.85%	26,703,000	26,703,000
ARRA Stimulus Bonds 2009	(4)	10/2/2015-9/1/30	.041 - 3.14%	8,274,000	8,274,000
Clean Water Watershed Bonds 2012	(5)	9/1/2032	.012 - 3.24%	2,621,000	2,621,000
Clean Water Watershed Bonds 2013	(6)	9/1/2033	.019 - 2.53%	3,842,000	3,842,000
Clean Water Revenue Bonds 2013	(7)	9/1/2034	.022 - 2.63%	23,960,000	23,960,000
Clean Water Revenue Bonds 2014	(8)	9/1/2034	.022 - 3.01%	7,668,000	7,668,000
Clean Water Revenue Bonds 2015	(10)	9/1/2035	.024 - 2.74%	30,000,000	30,000,000
Clean Water Revenue Bonds 2017				-	17,000,000
<b>Total Bonds</b>				<b>\$ 103,992,704</b>	<b>\$ 120,992,704</b>
<b>Total Capitalization</b>				<b>\$ 103,992,704</b>	<b>\$ 120,992,704</b>
Total Assets (Unaudited)	(9)			\$ 433,465,685	\$ 450,465,685
Debt/Total Assets				23.99%	26.86%
Net Utility Plant	(9)			\$ 286,422,648	\$ 303,422,648
Debt/Net Utility Plant				36.31%	39.88%

(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 &amp; Appurtenances.

(8) Borrowing 12/04/14 CWFA14 for Main Replacements &amp; Appurtenances.

(9) From Unaudited Balance Sheet Amounts as of 6/30/16

(10) Borrowing 12/02/2015 RIIB15 for Central Operations Facility.

**Rhode Island Infrastructure Bank**  
**Safe Drinking Water Revolving Fund Revenue Bonds, Series 2017**  
**Rates as of 5/12/2016 Plus 100 BP - Preliminary Subject to Change**

**Calculation of Borrower Rate**

Providence WSB - \$16.399M DWSRF Agency Loan (A Rated, Revenue Pledge)

Borrower:	Providence WSB	Highest Rating:	A
Rate Lock Date:	06/10/16	MMD Scale:	Revenue-A
Closing Date:	03/08/17	Zero% Subsidy:	-
Pledge:	Revenue	DSR Required:	Yes

Maturity	Market Rate	Less 25% Subsidy	Subsidized Rate	Loan Rate	Plus Admin. Fee	Total Borrower Billing Rate
2017	1.590%	-0.400%	1.190%	1.190%	0.500%	1.690%
2018	1.850%	-0.460%	1.390%	1.390%	0.500%	1.890%
2019	1.990%	-0.500%	1.490%	1.490%	0.500%	1.990%
2020	2.170%	-0.540%	1.630%	1.630%	0.500%	2.130%
2021	2.370%	-0.590%	1.780%	1.780%	0.500%	2.280%
2022	2.560%	-0.640%	1.920%	1.920%	0.500%	2.420%
2023	2.740%	-0.690%	2.050%	2.050%	0.500%	2.550%
2024	2.890%	-0.720%	2.170%	2.170%	0.500%	2.670%
2025	3.090%	-0.770%	2.320%	2.320%	0.500%	2.820%
2026	3.490%	-0.870%	2.620%	2.620%	0.500%	3.120%
2027	3.720%	-0.930%	2.790%	2.790%	0.500%	3.290%
2028	3.910%	-0.980%	2.930%	2.930%	0.500%	3.430%
2029	4.040%	-1.010%	3.030%	3.030%	0.500%	3.530%
2030	4.010%	-1.000%	3.010%	3.010%	0.500%	3.510%
2031	4.040%	-1.010%	3.030%	3.030%	0.500%	3.530%
2032	4.070%	-1.020%	3.050%	3.050%	0.500%	3.550%
2033	4.100%	-1.030%	3.070%	3.070%	0.500%	3.570%
2034	4.120%	-1.030%	3.090%	3.090%	0.500%	3.590%
2035	4.140%	-1.040%	3.100%	3.100%	0.500%	3.600%
2036	4.170%	-1.040%	3.130%	3.130%	0.500%	3.630%

**Rhode Island Infrastructure Bank**  
**Safe Drinking Water Revolving Fund Revenue Bonds, Series 2017**  
**Rates as of 5/12/2016 Plus 100 BP - Preliminary Subject to Change**

**Sources & Uses**

Providence WSB - \$16.399M DWSRF Agency Loan (A Rated, Revenue Pledge)

**Sources:**

Agency - Bond Proceeds	16,399,200.00
Direct Loan - State Match	-
Direct Loan - State Match Repayments	-
Fed Direct - 2015 Cap Grant	-
Fed Direct - 2015 Cap Grant "Green"	-
Fed Direct - Revenue Release Funds	-
Fed Direct - De-Allocated List Funds	-
Fed Direct - Prin Forgiveness Funds	-
Total Sources	<u>16,399,200.00</u>

**Uses:**

Agency Loan - Deposit to Construction Fund	15,000,000.00
Principal Forgiveness Funds	-
Deposit to DSRF	1,172,794.36
Capitalized Interest	-
Loan Origination Fee (1.0%)	163,992.00
Costs of Issuance - Local Level	62,413.64
Total Uses	<u>16,399,200.00</u>

**Providence WSB - Agency Loan Statistics (Exclusive of Fees):**

Weighted Average Maturity (Years)	11.3806
Market Yield on the Loan:	3.911%
Effective Yield* on Total Agency Loan	2.848%
Net Effective Subsidy:	27.180%

\*Effective Yield incorporates:

\* 25% DWSRF Interest Rate Subsidy

**Rhode Island Infrastructure Bank**  
**Safe Drinking Water Revolving Fund Revenue Bonds, Series 2017**  
**Rates as of 5/12/2016 Plus 100 BP - Preliminary Subject to Change**

**Construction Fund Cash Flow**

Providence WSB - \$16.399M DWSRF Agency Loan (A Rated, Revenue Pledge)

Date	Beginning Balance	Loan Proceeds Deposit	Cost of Issuance	Agency Loan Draws	DSRF & Cap-I	Total Draws	Ending Fund Balance	6-Month Const. Draws	% Spent
03/08/17	-	16,399,200.00	226,405.64	-	1,172,794.36	1,399,200.00	15,000,000.00		
04/01/17	15,000,000.00	-	-	2,000,000.00	-	2,000,000.00	13,000,000.00		
05/01/17	13,000,000.00	-	-	2,000,000.00	-	2,000,000.00	11,000,000.00		
06/01/17	11,000,000.00	-	-	2,000,000.00	-	2,000,000.00	9,000,000.00		
07/01/17	9,000,000.00	-	-	2,000,000.00	-	2,000,000.00	7,000,000.00		
08/01/17	7,000,000.00	-	-	2,000,000.00	-	2,000,000.00	5,000,000.00		
09/01/17	5,000,000.00	-	-	2,000,000.00	-	2,000,000.00	3,000,000.00	12,000,000.00	80%
10/01/17	3,000,000.00	-	-	2,000,000.00	-	2,000,000.00	1,000,000.00		
11/01/17	1,000,000.00	-	-	1,000,000.00	-	1,000,000.00	-		
12/01/17	-	-	-	-	-	-	-		
01/01/18	-	-	-	-	-	-	-		
02/01/18	-	-	-	-	-	-	-		
03/01/18	-	-	-	-	-	-	-	3,000,000.00	100%
04/01/18	-	-	-	-	-	-	-		
05/01/18	-	-	-	-	-	-	-		
06/01/18	-	-	-	-	-	-	-		
07/01/18	-	-	-	-	-	-	-		
08/01/18	-	-	-	-	-	-	-		
09/01/18	-	-	-	-	-	-	-	-	100%
10/01/18	-	-	-	-	-	-	-		
11/01/18	-	-	-	-	-	-	-		
12/01/18	-	-	-	-	-	-	-		
01/01/19	-	-	-	-	-	-	-		
02/01/19	-	-	-	-	-	-	-		
03/01/19	-	-	-	-	-	-	-	-	100%
04/01/19	-	-	-	-	-	-	-		
05/01/19	-	-	-	-	-	-	-		
06/01/19	-	-	-	-	-	-	-		
07/01/19	-	-	-	-	-	-	-		
08/01/19	-	-	-	-	-	-	-		
09/01/19	-	-	-	-	-	-	-	-	100%
10/01/19	-	-	-	-	-	-	-		
11/01/19	-	-	-	-	-	-	-		
12/01/19	-	-	-	-	-	-	-		
01/01/20	-	-	-	-	-	-	-		
02/01/20	-	-	-	-	-	-	-		
03/01/20	-	-	-	-	-	-	-	-	100%
04/01/20	-	-	-	-	-	-	-		
05/01/20	-	-	-	-	-	-	-		
06/01/20	-	-	-	-	-	-	-		
<b>16,399,200.00 226,405.64 15,000,000.00 1,172,794.36 16,399,200.00</b>							<b>15,000,000.00</b>		

**Rhode Island Infrastructure Bank**  
**Safe Drinking Water Revolving Fund Revenue Bonds, Series 2017**  
**Rates as of 5/12/2016 Plus 100 BP - Preliminary Subject to Change**

**Loan Balance**

Providence WSB - \$16.399M DWSRF Agency Loan (A Rated, Revenue Pledge)

Date	Agency Loan Draws	Agency Loan Balance	Interest (1) Accrued @ 2.600%	Semiannual Interest Requirements	Loan Fees @ 0.500%	Semiannual Loan Fees Payable
03/08/17	1,399,200.00	1,399,200.00	-	-	-	-
04/01/17	2,000,000.00	3,399,200.00	2,324.23	-	446.97	-
05/01/17	2,000,000.00	5,399,200.00	7,364.93	-	1,416.33	-
06/01/17	2,000,000.00	7,399,200.00	11,698.27	-	2,249.67	-
07/01/17	2,000,000.00	9,399,200.00	16,031.60	-	3,083.00	-
08/01/17	2,000,000.00	11,399,200.00	20,364.93	-	3,916.33	-
09/01/17	2,000,000.00	13,399,200.00	24,698.27	82,482.23	4,749.67	15,861.97
10/01/17	2,000,000.00	15,399,200.00	29,031.60	-	5,583.00	-
11/01/17	1,000,000.00	16,399,200.00	33,364.93	-	6,416.33	-
12/01/17	-	16,399,200.00	35,531.60	-	6,833.00	-
01/01/18	-	16,399,200.00	35,531.60	-	6,833.00	-
02/01/18	-	16,399,200.00	35,531.60	-	6,833.00	-
03/01/18	-	16,399,200.00	35,531.60	204,522.93	6,833.00	39,331.33
04/01/18	-	-	-	-	-	-
05/01/18	-	-	-	-	-	-
06/01/18	-	-	-	-	-	-
07/01/18	-	-	-	-	-	-
08/01/18	-	-	-	-	-	-
09/01/18	-	-	-	-	-	-
10/01/18	-	-	-	-	-	-
11/01/18	-	-	-	-	-	-
12/01/18	-	-	-	-	-	-
01/01/19	-	-	-	-	-	-
02/01/19	-	-	-	-	-	-
03/01/19	-	-	-	-	-	-
04/01/19	-	-	-	-	-	-
05/01/19	-	-	-	-	-	-
06/01/19	-	-	-	-	-	-
07/01/19	-	-	-	-	-	-
08/01/19	-	-	-	-	-	-
09/01/19	-	-	-	-	-	-
10/01/19	-	-	-	-	-	-
11/01/19	-	-	-	-	-	-
12/01/19	-	-	-	-	-	-
01/01/20	-	-	-	-	-	-
02/01/20	-	-	-	-	-	-
03/01/20	-	-	-	-	-	-
04/01/20	-	-	-	-	-	-
05/01/20	-	-	-	-	-	-
06/01/20	-	-	-	-	-	-
	<u>16,399,200.00</u>		<u>287,005.16</u>	<u>287,005.16</u>	<u>55,193.30</u>	<u>55,193.30</u>

(1) Interest rate represents the weighted average loan rate for the entire loan amortization.



**Rhode Island Infrastructure Bank**  
**Safe Drinking Water Revolving Fund Revenue Bonds, Series 2017**  
**Rates as of 5/12/2016 Plus 100 BP - Preliminary Subject to Change**

**Loan Debt Service**

Providence WSB - \$16.399M DWSRF Agency Loan (A Rated, Revenue Pledge)

Date	Principal	Loan Rate	(1) Interest	Net Fees @ 0.500%	Total Fees & Interest	Total Net Debt Service	Annual Net Debt Service & Fees
03/08/17							-
09/01/17	-	1.190%	82,482.23	15,861.97	98,344.20	98,344.20	98,344.20
03/01/18	-	-	204,522.93	39,331.33	243,854.26	243,854.26	-
09/01/18	673,000.00	1.390%	212,869.18	40,998.00	253,867.18	926,867.18	1,170,721.44
03/01/19	-	-	208,191.83	39,315.50	247,507.33	247,507.33	-
09/01/19	686,000.00	1.490%	208,191.83	39,315.50	247,507.33	933,507.33	1,181,014.66
03/01/20	-	-	203,081.13	37,600.50	240,681.63	240,681.63	-
09/01/20	699,000.00	1.630%	203,081.13	37,600.50	240,681.63	939,881.63	1,180,363.26
03/01/21	-	-	197,384.28	35,853.00	233,237.28	233,237.28	-
09/01/21	714,000.00	1.780%	197,384.28	35,853.00	233,237.28	947,237.28	1,180,474.56
03/01/22	-	-	191,029.68	34,068.00	225,097.68	225,097.68	-
09/01/22	730,000.00	1.920%	191,029.68	34,068.00	225,097.68	955,097.68	1,180,195.36
03/01/23	-	-	184,021.68	32,243.00	216,264.68	216,264.68	-
09/01/23	748,000.00	2.050%	184,021.68	32,243.00	216,264.68	964,264.68	1,180,529.36
03/01/24	-	-	176,354.68	30,373.00	206,727.68	206,727.68	-
09/01/24	767,000.00	2.170%	176,354.68	30,373.00	206,727.68	973,727.68	1,180,455.36
03/01/25	-	-	168,032.73	28,455.50	196,488.23	196,488.23	-
09/01/25	788,000.00	2.320%	168,032.73	28,455.50	196,488.23	984,488.23	1,180,976.46
03/01/26	-	-	158,891.93	26,485.50	185,377.43	185,377.43	-
09/01/26	810,000.00	2.620%	158,891.93	26,485.50	185,377.43	995,377.43	1,180,754.86
03/01/27	-	-	148,280.93	24,460.50	172,741.43	172,741.43	-
09/01/27	835,000.00	2.790%	148,280.93	24,460.50	172,741.43	1,007,741.43	1,180,482.86
03/01/28	-	-	136,632.68	22,373.00	159,005.68	159,005.68	-
09/01/28	863,000.00	2.930%	136,632.68	22,373.00	159,005.68	1,022,005.68	1,181,011.36
03/01/29	-	-	123,989.73	20,215.50	144,205.23	144,205.23	-
09/01/29	892,000.00	3.030%	123,989.73	20,215.50	144,205.23	1,036,205.23	1,180,410.46
03/01/30	-	-	110,475.93	17,985.50	128,461.43	128,461.43	-
09/01/30	924,000.00	3.010%	110,475.93	17,985.50	128,461.43	1,052,461.43	1,180,922.86
03/01/31	-	-	96,569.73	15,675.50	112,245.23	112,245.23	-
09/01/31	956,000.00	3.030%	96,569.73	15,675.50	112,245.23	1,068,245.23	1,180,490.46
03/01/32	-	-	82,086.33	13,285.50	95,371.83	95,371.83	-
09/01/32	990,000.00	3.050%	82,086.33	13,285.50	95,371.83	1,085,371.83	1,180,743.66
03/01/33	-	-	66,988.83	10,810.50	77,799.33	77,799.33	-
09/01/33	1,025,000.00	3.070%	66,988.83	10,810.50	77,799.33	1,102,799.33	1,180,598.66
03/01/34	-	-	51,255.08	8,248.00	59,503.08	59,503.08	-
09/01/34	1,062,000.00	3.090%	51,255.08	8,248.00	59,503.08	1,121,503.08	1,181,006.16
03/01/35	-	-	34,847.18	5,593.00	40,440.18	40,440.18	-
09/01/35	1,100,000.00	3.100%	34,847.18	5,593.00	40,440.18	1,140,440.18	1,180,880.36
03/01/36	-	-	17,797.18	2,843.00	20,640.18	20,640.18	-
09/01/36	1,137,200.00	3.130%	17,797.18	2,843.00	20,640.18	1,157,840.18	1,178,480.36
<b>16,399,200.00</b>			<b>5,211,697.42</b>	<b>907,959.30</b>	<b>6,119,656.72</b>	<b>22,518,856.72</b>	<b>22,518,856.72</b>

(1) Interest during construction is calculated based on the timing of expected draws and the overall weighted average loan rate of 2.600%.

(2) Minimum principal amortization is required before Construction Fund is completely drawn.



**RHODE ISLAND  
INFRASTRUCTURE BANK**

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November 2, 2016

Ricky Caruolo, General Manager  
Providence Water Supply Board  
552 Academy Avenue  
Providence, RI 02908

RE: Providence Water Supply Board  
up to \$17,000,000 Drinking Water State Revolving Fund Loan for  
drinking water infrastructure improvement projects

Dear Mr. Caruolo:

The Board of Directors of the Rhode Island Infrastructure Bank (the "Bank"), pursuant to policies and procedures adopted in accordance with the Safe Drinking Water Act Amendments of 1996 and Chapters 46-12.2 and 46-12.8 of the Rhode Island General Laws, is pleased to inform you that the application of the Providence Water Supply Board (the "Borrower") dated September 22, 2016 for financing through the Bank has been approved, at the Bank's September 28, 2016 Board Meeting, and in consideration of the receipt of the Certificates of Approval referred to below, the Bank shall provide financial aid in the form of a loan on the terms stated below, in an amount not to exceed \$17,000,000 for a term not to exceed 20 years after project completion.

This approval is subject to Providence Water Supply Board meeting the following terms:

- 1) That the project to be funded appears on the Department of Health's ("DOH") Project Priority List and have Certificates of Approval issued by DOH;
- 2) That the loan security be in a form acceptable to the Bank;
- 3) That the Borrower comply with applicable federal, state and municipal laws, ordinances, rules and/or regulations and Bank requirements; and
- 4) That a mutually accepted loan agreement be signed by all parties to the transactions.

**TERMS AND CONDITIONS**

**(1) Division of Public Utilities and Carriers**

Prior to entering into a loan agreement, the Borrower must receive approval from the Division of Public Utilities and Carriers for entering into long term financing with the Bank, if such approval is required by law, rule, or regulation.

(2) **Certificate of Approval**

Prior to disbursement of funds by the Bank, the Bank must be in receipt of Certificate(s) of Approval by the Rhode Island Department of Health (DOH) of the Borrower's proposed project(s), pursuant to Title 46-12.8 of the Rhode Island General Laws, and rules and regulations promulgated thereunder.

(3) **Loan Agreement**

There will be a loan agreement (the "agreement") with the Borrower outlining the specific terms and conditions of the Bank's loan program, as more generally set forth below and in the agreement, including the loan (the "Loan") to the Borrower. The Borrower's repayment obligation to the Bank under the agreement will be evidenced by a bond of the Borrower outlining the Loan's specific terms and conditions (the "Bond"). The Bond 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 will include (without limitation) the following provisions:

(a) **Forgiveness of Loan Principal**

In accordance with EPA Appropriations statutes, rules, regulations and guidance issued thereunder by the Environmental Protection Agency, and Chapters 12.2 and 12.8 of Title 46 of the Rhode Island General Laws, all or a portion of the loan principal may be forgiven. The loan forgiveness amount, if any, will be determined prior to loan closing.

(b) **Borrowing Rate**

Loans will be fixed to equal, as nearly as practicable, three quarters (3/4) of the prevailing market interest rate (the "Subsidized Interest Rate") for tax-exempt or taxable issuers of comparable creditworthiness and tax status to each Borrower, as determined by the Bank on the advice of the Bank's Financial Adviser after consultation with the Borrower. Interest is to be calculated on the basis of 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. Borrower will be contractually liable for the full market interest rate on the Loans, as determined by the Bank at the time of closing on the Loan, but will be billed only for the subsidized interest rate as stated above.

(c) Amortization

Amortization will begin on September 1 beginning no later than one year after project completion. 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.

(d) Final Maturity

Loans shall mature up to twenty years after the completion of the funded project(s).

(e) Prepayments

A Loan may be prepaid by the Borrower at any time with the reasonable consent of the Bank but as a condition to giving such consent the Bank may require a prepayment penalty based on the cost of reinvesting the prepayment or any other reasonable negative financial impact to the Bank.

(f) Security

Loans will have a pledge of (a) general revenues and/or water system user fee revenues; and (b) may be secured by any assets and/or credit enhancements which the Bank deems appropriate to protect the interest of the other participants in the loan programs of the Bank; bond holders; other creditors of the Bank; or the finances of the Bank.

(4) Construction Progress Payments

Progress payments for each construction project will be made through the Borrower's Construction Proceeds Account ("BCPA"). Loan proceeds will be transferred to the BCPA 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 a Certificate of Approval has been issued by RIDOH; b) that the vendor is identified in the contract; and c) that there is sufficient availability in the BCPA 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 RIDOH. RIDOH 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. RIDOH 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. RIDOH will perform a final project inspection before the final payment is made by the Bank.

(5) **Reporting 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 or other financial statements and compilations as acceptable to the Bank.
- (b) An annual analysis of operating revenues and expenses, including without limitation, a description of the status of the dedicated water system revenues and/or general revenues and operating expenses in excess of budget.
- (c) A copy of the annual budget of the Borrower, within fifteen days of its adoption, if applicable.
- (d) An annual schedule of current and projected short and long term debt service.
- (e) An annual schedule of Infrastructure Replacement Fund Reserves.
- (f) Copies of reports submitted to RIDOH, the Rhode Island Department of Environmental Management, the federal Environmental Protection Agency ("EPA") and any other regulatory agency relating to any project financed by the Bank or the operation thereof.
- (g) If appropriate, an accounting of all bond proceeds separately because, under the Tax Reform Act of 1986, all water and sewer districts may possibly have to rebate arbitrage profits regardless of whether they borrow through the Bank or otherwise. The \$5,000,000 "small issuer" exemption will not apply to water and sewer districts. Changes to the Code in 1989 do provide that if construction projects will be completed with bond proceeds spent on a specific timetable within two years, the Borrower may not be subject to the rebate provisions contained in the Internal Revenue Code and temporary regulations promulgated thereunder. The Borrower should review this issue with bond counsel.
- (h) Other information or reports that the Bank deems appropriate.

(6) **Compliance with State and Federal Law**

The Borrower must comply with all applicable state laws and regulations. Recipients of loans must also comply with all requirements of the Federal Safe Drinking Water Act, as amended and regulations issued thereunder, in addition to any other applicable federal laws and regulations (see attached- Davis-Bacon (DB) prevailing wage requirements and EPA Guidance on Use of American Iron and Steel).

In addition, the Borrower must agree to take all action, or refrain from taking any action, that would cause Interest on any obligations of the Bank to be included, for federal income tax purposes, in the gross income of the holders of such obligations.

(7) **Fees**

An origination fee of 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. Costs incurred by the Bank in making the loan will be paid by the Bank. The Borrower will be responsible for its own costs incidental to the transaction; i.e. legal fees, bond counsel fees and financial advisory fees. The Bank will charge an annual service fee of one-half of one percent (0.5%) 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.

(8) **Financial Advisory Services**

This letter shall constitute an acknowledgement and consent to the provision of financial advisory services by First Southwest Company to the Borrower and to the Rhode Island Infrastructure Bank regarding the Borrower loan.

(9) **Modifications**

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

(10) **Merger**

Once the Agreement, the Bond 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.

(11) **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 BCPA from time to time.

Two copies of this letter are enclosed. Please sign both and return one original copy to this Bank at 235 Promenade Street, Suite 119, Providence, RI 02908.

I would like to take this opportunity to thank you for your participation in the Drinking Water State Revolving Fund. 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 this office.

Very truly yours,

RHODE ISLAND INFRASTRUCTURE BANK

By: 

Jeffrey Diella, Executive Director/CEO

Accepted this 16 day of NOVEMBER, 2016

By: 

Title: General Manager

Providence Water Supply Board

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

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

cc: Carlene Newman-RI DOH  
Christopher Vitale, Esq., Bank Counsel

## ATTACHMENT 1

### I. Requirements Under The Consolidated Appropriations Act , 2016 (P.L. 114-113) For Sub recipients That Are Governmental Entities :

The following terms and conditions specify how recipients will assist EPA in meeting its Davis-Bacon (DB) responsibilities when DB applies to EPA awards of financial assistance under the Consolidated Appropriations Act, 2016 (P.L. 114-113) with respect to State recipients and sub recipients that are governmental entities. If a sub recipient has questions regarding when DB applies, obtaining the correct DB wage determinations, DB provisions, or compliance monitoring, it may contact the State recipient. If a State recipient needs guidance, the recipient may contact Valerie Marshall (marshall.valerie@epa.gov or 617-918-1674) of EPA Region 1 for guidance. The recipient or sub recipient may also obtain additional guidance from DOL's web site at <http://www.dol.gov/whd/>

#### 1. Applicability of the Davis - Bacon (DB) prevailing wage requirements .

Under the Consolidated Appropriations Act, 2016, DB prevailing wage requirements apply to the construction, alteration, and repair of treatment works carried out in whole or in part with assistance made available by a State water pollution control revolving fund and to any construction project carried out in whole or in part by assistance made available by a drinking water treatment revolving loan fund. If a sub recipient encounters a unique situation at a site that presents uncertainties regarding DB applicability, the sub recipient must discuss the situation with the recipient State before authorizing work on that site.

#### 2. Obtaining Wage Determinations .

(a) Sub recipients shall obtain the wage determination for the locality in which a covered activity subject to DB will take place prior to issuing requests for bids, proposals, quotes or other methods for soliciting contracts (solicitation) for activities subject to DB. These wage determinations shall be incorporated into solicitations and any subsequent contracts. Prime contracts must contain a provision requiring that subcontractors follow the wage determination incorporated into the prime contract.

(i) While the solicitation remains open, the sub recipient shall monitor [www.wdol.gov](http://www.wdol.gov) weekly to ensure that the wage determination contained in the solicitation remains current. The sub recipients shall amend the solicitation if DOL issues a modification more than 10 days prior to the closing date (i.e. bid opening) for the solicitation. If DOL modifies or supersedes the applicable wage determination less than 10 days prior to the closing date, the sub recipients may request a finding from the State recipient that there is not a reasonable time to notify interested contractors of the modification of the wage determination. The State recipient will provide a report of its findings to the sub recipient.

(ii) If the sub recipient does not award the contract within 90 days of the closure of the solicitation, any modifications or supersedes DOL makes to the wage determination contained in the solicitation shall be effective unless the State recipient, at the request of the sub recipient, obtains an extension of the 90 day period from DOL pursuant to 29 CFR 1.6 (c)(3)(iv). The sub recipient shall monitor [www.wdol.gov](http://www.wdol.gov) on a weekly basis if it does not award the contract within 90 days of closure of the solicitation to ensure that wage determinations contained in the solicitation remain current.

(b) If the sub recipient carries out activity subject to DB by issuing a task order, work assignment or similar instrument to an existing contractor (ordering instrument) rather than by publishing a solicitation, the sub recipient shall insert the appropriate DOL wage determination



from [www.wdol.gov](http://www.wdol.gov) into the ordering instrument.

(c) Sub recipients shall review all subcontracts subject to DB entered into by prime contractors to verify that the prime contractor has required its subcontractors to include the applicable wage determinations.

(d) As provided in 29 CFR 1.6(f), DOL may issue a revised wage determination applicable to a sub recipient's contract after the award of a contract or the issuance of an ordering instrument if DOL determines that the sub recipient has failed to incorporate a wage determination or has used a wage determination that clearly does not apply to the contract or ordering instrument. If this occurs, the sub recipient shall either terminate the contract or ordering instrument and issue a revised solicitation or ordering instrument or incorporate DOL's wage determination retroactive to the beginning of the contract or ordering instrument by change order. The sub recipient's contractor must be compensated for any increases in wages resulting from the use of DOL's revised wage determination.

### 3. Contract and Subcontract provisions.

(a) The Recipient shall insure that the sub recipient(s) shall insert in full in any contract in excess of \$2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a treatment work under the CWSRF or a construction project under the DWSRF financed in whole or in part from Federal funds or in accordance with guarantees of a Federal agency or financed from funds obtained by pledge of any contract of a Federal agency to make a loan, grant or annual contribution (except where a different meaning is expressly indicated), and which is subject to the labor standards provisions of any of the acts listed in § 5.1 or the Consolidated Appropriations Act, 2016, the following clauses:

#### (1) Minimum wages.

(i) All laborers and mechanics employed or working upon the site of the work will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account (except such payroll deductions as are permitted by regulations issued by the Secretary of Labor under the Copeland Act (29 CFR part 3)), the full amount of wages and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics.

Contributions made or costs reasonably anticipated for bona fide fringe benefits under section 1(b)(2) of the Davis-Bacon Act on behalf of laborers or mechanics are considered wages paid to such laborers or mechanics, subject to the provisions of paragraph (a)(1)(iv) of this section; also, regular contributions made or costs incurred for more than a weekly period (but not less often than quarterly) under plans, funds, or programs which cover the particular weekly period, are deemed to be constructively made or incurred during such weekly period. Such laborers and mechanics shall be paid the appropriate wage rate and fringe benefits on the wage determination for the classification of work actually performed, without regard to skill, except as provided in § 5.5(a)(4). Laborers or mechanics performing work in more than one classification may be compensated at the rate specified for each classification for the time actually worked therein: Provided that the employer's payroll records accurately set forth the time spent in each classification in which work is performed. The wage determination (including any additional classification and wage rates conformed under paragraph (a)(1)(ii) of this section) and the Davis-Bacon poster (WH-1321) shall be posted at all times by the contractor and its subcontractors at the site of the work in a prominent and accessible place where it can be easily seen by the workers.

Sub recipients may obtain wage determinations from the U.S. Department of Labor's web site,

www.dol.gov.

(ii)(A) The sub recipient(s), on behalf of EPA, shall require that any class of laborers or mechanics, including helpers, which is not listed in the wage determination and which is to be employed under the contract shall be classified in conformance with the wage determination. The State award official shall approve a request for an additional classification and wage rate and fringe benefits therefore only when the following criteria have been met:

(1) The work to be performed by the classification requested is not performed by a classification in the wage determination; and

(2) The classification is utilized in the area by the construction industry; and

(3) The proposed wage rate, including any bona fide fringe benefits, bears a reasonable relationship to the wage rates contained in the wage determination.

(B) If the contractor and the laborers and mechanics to be employed in the classification (if known), or their representatives, and the sub recipient(s) agree on the classification and wage rate (including the amount designated for fringe benefits where appropriate), documentation of the action taken and the request, including the local wage determination shall be sent by the sub recipient(s) to the State award official. The State award official will transmit the request, to the Administrator of the Wage and Hour Division, Employment Standards Administration, U.S. Department of Labor, Washington, DC 20210 and to the EPA DB Regional Coordinator concurrently. The Administrator, or an authorized representative, will approve, modify, or disapprove every additional classification request within 30 days of receipt and so advise the State award official or will notify the State award official within the 30-day period that additional time is necessary.

(C) In the event the contractor, the laborers or mechanics to be employed in the classification or their representatives, and the sub recipient(s) do not agree on the proposed classification and wage rate (including the amount designated for fringe benefits, where appropriate), the award official shall refer the request and the local wage determination, including the views of all interested parties and the recommendation of the State award official, to the Administrator for determination. The request shall be sent to the EPA DB Regional Coordinator concurrently. The Administrator, or an authorized representative, will issue a determination within 30 days of receipt of the request and so advise the contracting officer or will notify the contracting officer within the 30-day period that additional time is necessary.

(D) The wage rate (including fringe benefits where appropriate) determined pursuant to paragraphs (a)(1)(ii)(B) or (C) of this section, shall be paid to all workers performing work in the classification under this contract from the first day on which work is performed in the classification.

(iii) Whenever the minimum wage rate prescribed in the contract for a class of laborers or mechanics includes a fringe benefit which is not expressed as an hourly rate, the contractor shall either pay the benefit as stated in the wage determination or shall pay another bona fide fringe benefit or an hourly cash equivalent thereof.

(iv) If the contractor does not make payments to a trustee or other third person, the contractor may consider as part of the wages of any laborer or mechanic the amount of any costs reasonably anticipated in providing bona fide fringe benefits under a plan or program, Provided, That the Secretary of Labor has found, upon the written request of the contractor, that the applicable standards of the Davis-Bacon Act have been met. The Secretary of Labor may require the contractor to set aside in a separate account assets for the meeting of obligations under the plan or program.

(2) Withholding. The sub recipient(s), shall upon written request of the EPA Award Official or an authorized representative of the Department of Labor, withhold or cause to be withheld from the

contractor under this contract or any other Federal contract with the same prime contractor, or any other federally-assisted contract subject to Davis-Bacon prevailing wage requirements, which is held by the same prime contractor, so much of the accrued payments or advances as may be considered necessary to pay laborers and mechanics, including apprentices, trainees, and helpers, employed by the contractor or any subcontractor the full amount of wages required by the contract. In the event of failure to pay any laborer or mechanic, including any apprentice, trainee, or helper, employed or working on the site of the work, all or part of the wages required by the contract, the (Agency) may, after written notice to the contractor, sponsor, applicant, or owner, take such action as may be necessary to cause the suspension of any further payment, advance, or guarantee of funds until such violations have ceased.

(3) Payrolls and basic records.

(i) Payrolls and basic records relating thereto shall be maintained by the contractor during the course of the work and preserved for a period of three years thereafter for all laborers and mechanics working at the site of the work. Such records shall contain the name, address, and social security number of each such worker, his or her correct classification, hourly rates of wages paid (including rates of contributions or costs anticipated for bona fide fringe benefits or cash equivalents thereof of the types described in section 1(b)(2)(B) of the Davis-Bacon Act), daily and weekly number of hours worked, deductions made and actual wages paid. Whenever the Secretary of Labor has found under 29 CFR 5.5(a)(1)(iv) that the wages of any laborer or mechanic include the amount of any costs reasonably anticipated in providing benefits under a plan or program described in section 1(b)(2)(B) of the Davis-Bacon Act, the contractor shall maintain records which show that the commitment to provide such benefits is enforceable, that the plan or program is financially responsible, and that the plan or program has been communicated in writing to the laborers or mechanics affected, and records which show the costs anticipated or the actual cost incurred in providing such benefits. Contractors employing apprentices or trainees under approved programs shall maintain written evidence of the registration of apprenticeship programs and certification of trainee programs, the registration of the apprentices and trainees, and the ratios and wage rates prescribed in the applicable programs.

(ii)(A) The contractor shall submit weekly, for each week in which any contract work is performed, a copy of all payrolls to the sub recipient, that is, the entity that receives the sub-grant or loan from the State capitalization grant recipient. Such documentation shall be available on request of the State recipient or EPA. As to each payroll copy received, the sub recipient shall provide written confirmation in a form satisfactory to the State indicating whether or not the project is in compliance with the requirements of 29 CFR 5.5(a)(1) based on the most recent payroll copies for the specified week. The payrolls shall set out accurately and completely all of the information required to be maintained under 29 CFR 5.5(a)(3)(i), except that full social security numbers and home addresses shall not be included on the weekly payrolls. Instead the payrolls shall only need to include an individually identifying number for each employee (e.g., the last four digits of the employee's social security number). The required weekly payroll information may be submitted in any form desired. Optional Form WH-347 is available for this purpose from the Wage and Hour Division Web site at

<http://www.dol.gov/whd/forms/wh347instr.htm> or its successor site. The prime contractor is responsible for the submission of copies of payrolls by all subcontractors. Contractors and subcontractors shall maintain the full social security number and current address of each covered worker, and shall provide them upon request to the sub recipient(s) for transmission to the State or EPA if requested by EPA, the State, the contractor, or the Wage and Hour Division of the Department of Labor for purposes of an investigation or audit of compliance with

prevailing wage requirements. It is not a violation of this section for a prime contractor to require a subcontractor to provide addresses and social security numbers to the prime contractor for its own records, without weekly submission to the sub recipient(s).

(B) Each payroll submitted shall be accompanied by a "Statement of Compliance," signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract and shall certify the following:

(1) That the payroll for the payroll period contains the information required to be provided under § 5.5

(a)(3)(ii) of Regulations, 29 CFR part 5, the appropriate information is being maintained under § 5.5

(a)(3)(i) of Regulations, 29 CFR part 5, and that such information is correct and complete;

(2) That each laborer or mechanic (including each helper, apprentice, and trainee) employed on the contract during the payroll period has been paid the full weekly wages earned, without rebate, either directly or indirectly, and that no deductions have been made either directly or indirectly from the full wages earned, other than permissible deductions as set forth in Regulations, 29 CFR part 3;

(3) That each laborer or mechanic has been paid not less than the applicable wage rates and fringe benefits or cash equivalents for the classification of work performed, as specified in the applicable wage determination incorporated into the contract.

(C) The weekly submission of a properly executed certification set forth on the reverse side of Optional Form WH-347 shall satisfy the requirement for submission of the "Statement of Compliance" required by paragraph (a)(3)(ii)(B) of this section.

(D) The falsification of any of the above certifications may subject the contractor or subcontractor to civil or criminal prosecution under section 1001 of title 18 and section 231 of title 31 of the United States Code.

(iii) The contractor or subcontractor shall make the records required under paragraph (a)(3)(i) of this section available for inspection, copying, or transcription by authorized representatives of the State, EPA or the Department of Labor, and shall permit such representatives to interview employees during working hours on the job. If the contractor or subcontractor fails to submit the required records or to make them available, the Federal agency or State may, after written notice to the contractor, sponsor, applicant, or owner, take such action as may be necessary to cause the suspension of any further payment, advance, or guarantee of funds. Furthermore, failure to submit the required records upon request or to make such records available may be grounds for debarment action pursuant to 29 CFR 5.12.

(4) Apprentices and trainees

(i) Apprentices. Apprentices will be permitted to work at less than the predetermined rate for the work they performed when they are employed pursuant to and individually registered in a bona fide apprenticeship program registered with the U.S. Department of Labor, Employment and Training Administration, Office of Apprenticeship Training, Employer and Labor Services, or with a State Apprenticeship Agency recognized by the Office, or if a person is employed in his or her first 90 days of probationary employment as an apprentice in such an apprenticeship program, who is not individually registered in the program, but who has been certified by the Office of Apprenticeship Training, Employer and Labor Services or a State Apprenticeship Agency (where appropriate) to be eligible for probationary employment as an apprentice. The allowable ratio of apprentices to journeymen on the job site in any craft classification shall not be greater than the ratio permitted to the contractor as to the entire work force under the registered program. Any worker listed on a payroll at an apprentice wage rate, who is not registered or otherwise employed as stated above, shall be paid not less than the applicable wage rate on the wage

determination for the classification of work actually performed. In addition, any apprentice performing work on the job site in excess of the ratio permitted under the registered program shall be paid not less than the applicable wage rate on the wage determination for the work actually performed. Where a contractor is performing construction on a project in a locality other than that in which its program is registered, the ratios and wage rates (expressed in percentages of the journeyman's hourly rate) specified in the contractor's or subcontractor's registered program shall be observed. Every apprentice must be paid at not less than the rate specified in the registered program for the apprentice's level of progress, expressed as a percentage of the journeyman hourly rate specified in the applicable wage determination. Apprentices shall be paid fringe benefits in accordance with the provisions of the apprenticeship program. If the apprenticeship program does not specify fringe benefits, apprentices must be paid the full amount of fringe benefits listed on the wage determination for the applicable classification. If the Administrator determines that a different practice prevails for the applicable apprentice classification, fringes shall be paid in accordance with that determination. In the event the Office of Apprenticeship Training, Employer and Labor Services, or a State Apprenticeship Agency recognized by the Office, withdraws approval of an apprenticeship program, the contractor will no longer be permitted to utilize apprentices at less than the applicable predetermined rate for the work performed until an acceptable program is approved.

(ii) Trainees. Except as provided in 29 CFR 5.16, trainees will not be permitted to work at less than the predetermined rate for the work performed unless they are employed pursuant to and individually registered in a program which has received prior approval, evidenced by formal certification by the U.S. Department of Labor, Employment and Training Administration. The ratio of trainees to journeymen on the job site shall not be greater than permitted under the plan approved by the Employment and Training Administration. Every trainee must be paid at not less than the rate specified in the approved program for the trainee's level of progress, expressed as a percentage of the journeyman hourly rate specified in the applicable wage determination. Trainees shall be paid fringe benefits in accordance with the provisions of the trainee program. If the trainee program does not mention fringe benefits, trainees shall be paid the full amount of fringe benefits listed on the wage determination unless the Administrator of the Wage and Hour Division determines that there is an apprenticeship program associated with the corresponding journeyman wage rate on the wage determination which provides for less than full fringe benefits for apprentices. Any employee listed on the payroll at a trainee rate who is not registered and participating in a training plan approved by the Employment and Training Administration shall be paid not less than the applicable wage rate on the wage determination for the classification of work actually performed. In addition, any trainee performing work on the job site in excess of the ratio permitted under the registered program shall be paid not less than the applicable wage rate on the wage determination for the work actually performed. In the event the Employment and Training Administration withdraws approval of a training program, the contractor will no longer be permitted to utilize trainees at less than the applicable predetermined rate for the work performed until an acceptable program is approved.

(iii) Equal employment opportunity. The utilization of apprentices, trainees and journeymen under this part shall be in conformity with the equal employment opportunity requirements of Executive Order 11246, as amended and 29 CFR part 30.

(5) Compliance with Copeland Act requirements. The contractor shall comply with the requirements of 29 CFR part 3, which are incorporated by reference in this contract.

(6) Subcontracts. The contractor or subcontractor shall insert in any subcontracts the clauses contained in 29 CFR 5.5(a)(1) through (10) and such other clauses as the EPA determines may be appropriate, and also a clause requiring the subcontractors to include these clauses in any

lower tier subcontracts. The prime contractor shall be responsible for the compliance by any subcontractor or lower tier subcontractor with all the contract clauses in 29 CFR 5.5.

(7) Contract termination; debarment. A breach of the contract clauses in 29 CFR 5.5 may be grounds for termination of the contract, and for debarment as a contractor and a subcontractor as provided in 29 CFR 5.12.

(8) Compliance with Davis-Bacon and Related Act requirements. All rulings and interpretations of the Davis-Bacon and Related Acts contained in 29 CFR parts 1, 3, and 5 are herein incorporated by reference in this contract.

(9) Disputes concerning labor standards. Disputes arising out of the labor standards provisions of this contract shall not be subject to the general disputes clause of this contract. Such disputes shall be resolved in accordance with the procedures of the Department of Labor set forth in 29 CFR parts 5, 6, and 7. Disputes within the meaning of this clause include disputes between the contractor (or any of its subcontractors) and sub recipient(s), State, EPA, the U.S. Department of Labor, or the employees or their representatives.

(10) Certification of eligibility.

(i) By entering into this contract, the contractor certifies that neither it (nor he or she) nor any person or firm who has an interest in the contractor's firm is a person or firm ineligible to be awarded Government contracts by virtue of section 3(a) of the Davis-Bacon Act or 29 CFR 5.12(a)(1).

(ii) No part of this contract shall be subcontracted to any person or firm ineligible for award of a Government contract by virtue of section 3(a) of the Davis-Bacon Act or 29 CFR 5.12(a)(1).

(iii) The penalty for making false statements is prescribed in the U.S. Criminal Code, 18 U.S.C. 1001.

4. Contract Provision for Contracts in Excess of \$100,000.

(a) Contract Work Hours and Safety Standards Act. The sub recipient shall insert the following clauses set forth in paragraphs (a)(1), (2), (3), and (4) of this section in full in any contract in an amount in excess of \$100,000 and subject to the overtime provisions of the Contract Work Hours and Safety Standards Act. These clauses shall be inserted in addition to the clauses required by Item 3, above or 29 CFR 4.6. As used in this paragraph, the terms laborers and mechanics include watchmen and guards.

(1) Overtime requirements. No contractor or subcontractor contracting for any part of the contract work which may require or involve the employment of laborers or mechanics shall require or permit any such laborer or mechanic in any workweek in which he or she is employed on such work to work in excess of forty hours in such workweek unless such laborer or mechanic receives compensation at a rate not less than one and one-half times the basic rate of pay for all hours worked in excess of forty hours in such workweek.

(2) Violation; liability for unpaid wages; liquidated damages. In the event of any violation of the clause set forth in paragraph (a)(1) of this section the contractor and any subcontractor responsible therefore shall be liable for the unpaid wages. In addition, such contractor and subcontractor shall be liable to the United States (in the case of work done under contract for the District of Columbia or a territory, to such District or to such territory), for liquidated damages. Such liquidated damages shall be computed with respect to each individual laborer or mechanic, including watchmen and guards, employed in violation of the clause set forth in paragraph (a)(1) of this section, in the sum of \$10 for each calendar day on which such individual was required or permitted to work in excess of the standard workweek of forty hours without payment of the overtime wages required by the clause set forth in paragraph (a)(1) of this section.

(3) Withholding for unpaid wages and liquidated damages. The sub recipient, upon written request of the EPA Award Official or an authorized representative of the Department of Labor,

shall withhold or cause to be withheld, from any moneys payable on account of work performed by the contractor or subcontractor under any such contract or any other Federal contract with the same prime contractor, or any other federally-assisted contract subject to the Contract Work Hours and Safety Standards Act, which is held by the same prime contractor, such sums as may be determined to be necessary to satisfy any liabilities of such contractor or subcontractor for unpaid wages and liquidated damages as provided in the clause set forth in paragraph (b)(2) of this section.

(4) Subcontracts. The contractor or subcontractor shall insert in any subcontracts the clauses set forth in paragraph (a)(1) through (4) of this section and also a clause requiring the subcontractors to include these clauses in any lower tier subcontracts. The prime contractor shall be responsible for compliance by any subcontractor or lower tier subcontractor with the clauses set forth in paragraphs (a)(1) through (4) of this section.

(b) In addition to the clauses contained in Item 3, above, in any contract subject only to the Contract

Work Hours and Safety Standards Act and not to any of the other statutes cited in 29 CFR 5.1, the Sub recipient shall insert a clause requiring that the contractor or subcontractor shall maintain payrolls and basic payroll records during the course of the work and shall preserve them for a period of three years from the completion of the contract for all laborers and mechanics, including guards and watchmen, working on the contract. Such records shall contain the name and address of each such employee, social security number, correct classifications, hourly rates of wages paid, daily and weekly number of hours worked, deductions made, and actual wages paid. Further, the Sub recipient shall insert in any such contract a clause providing that the records to be maintained under this paragraph shall be made available by the contractor or subcontractor for inspection, copying, or transcription by authorized representatives of the (write the name of agency) and the Department of Labor, and the contractor or subcontractor will permit such representatives to interview employees during working hours on the job.

#### 5. Compliance Verification

(a) The sub recipient shall periodically interview a sufficient number of employees entitled to DB prevailing wages (covered employees) to verify that contractors or subcontractors are paying the appropriate wage rates. As provided in 29 CFR 5.6(a)(6), all interviews must be conducted in confidence. The sub recipient must use Standard Form 1445 (SF 1445) or equivalent documentation to memorialize the interviews. Copies of the SF 1445 are available from EPA on request.

(b) The sub recipient shall establish and follow an interview schedule based on its assessment of the risks of noncompliance with DB posed by contractors or subcontractors and the duration of the contract or subcontract. Sub recipients must conduct more frequent interviews if the initial interviews or other information indicated that there is a risk that the contractor or subcontractor is not complying with DB. Sub recipients shall immediately conduct interviews in response to an alleged violation of the prevailing wage requirements. All interviews shall be conducted in confidence."

(c) The sub recipient shall periodically conduct spot checks of a representative sample of weekly payroll data to verify that contractors or subcontractors are paying the appropriate wage rates. The sub recipient shall establish and follow a spot check schedule based on its assessment of the risks of noncompliance with DB posed by contractors or subcontractors and the duration of the contract or subcontract. At a minimum, if practicable, the sub recipient \_\_\_\_\_ should spot check payroll data within two weeks of each contractor or subcontractor's submission of its initial payroll data and two weeks prior to the completion date the contract or subcontract. Sub recipients must conduct more frequent spot checks if the initial spot check or

other information indicates that there is a risk that the contractor or subcontractor is not complying with DB. In addition, during the examinations the sub recipient shall verify evidence of fringe benefit plans and payments there under by contractors and subcontractors who claim credit for fringe benefit contributions.

(d) The sub recipient shall periodically review contractors and subcontractor's use of apprentices and trainees to verify registration and certification with respect to apprenticeship and training programs approved by either the U.S Department of Labor or a state, as appropriate, and that contractors and subcontractors are not using disproportionate numbers of, laborers, trainees and apprentices. These reviews shall be conducted in accordance with the schedules for spot checks and interviews described in Item 5(b) and (c) above.

(e) Sub recipients must immediately report potential violations of the DB prevailing wage requirements to the EPA DB contact listed above and to the appropriate DOL Wage and Hour District Office listed at <http://www.dol.gov/whd/america2.htm>.

## II. Requirements Under The Consolidated Appropriations Act, 2016 (P.L. 114-113) For Sub recipients That Are Not Governmental Entities :

The following terms and conditions specify how recipients will assist EPA in meeting its DB responsibilities when DB applies to EPA awards of financial assistance under the FY2016 Consolidated Appropriations Act with respect to sub recipients that are not governmental entities. If a sub recipient has questions regarding when DB applies, obtaining the correct DB wage determinations, DB provisions, or compliance monitoring, it may contact the State recipient for guidance. If a State recipient needs guidance, the recipient may contact Valerie Marshall ([marshall.valerie@epa.gov](mailto:marshall.valerie@epa.gov) or 617-918-1674), EPA Grants Management Office for guidance. The recipient or sub recipient may also obtain additional guidance from DOL's web site at

<http://www.dol.gov/whd/>

Under these terms and conditions, the sub recipient must submit its proposed DB wage determinations to the State recipient for approval prior to including the wage determination in any solicitation, contract task orders, work assignments, or similar instruments to existing contractors.

### 1. Applicability of the Davis -Bacon (DB) prevailing wage requirements .

Under the FY2016 Consolidated Appropriations Act, DB prevailing wage requirements apply to the construction, alteration, and repair of treatment works carried out in whole or in part with assistance made available by a State water pollution control revolving fund and to any construction project carried out in whole or in part by assistance made available by a drinking water treatment revolving loan fund. If a sub recipient encounters a unique situation at a site that presents uncertainties regarding DB applicability, the sub recipient must discuss the situation with the recipient State before authorizing work on that site.

### 2. Obtaining Wage Determinations .

(a) Sub recipients must obtain proposed wage determinations for specific localities at [www.wdol.gov](http://www.wdol.gov). After the Sub recipient obtains its proposed wage determination, it must submit the wage determination to June Swallow ([june.swallow@health.ri.gov](mailto:june.swallow@health.ri.gov) or 401-222-6867) for approval prior to inserting the wage determination into a solicitation, contract or issuing task orders, work assignments or similar instruments to existing contractors (ordering instruments unless subsequently directed otherwise by the State recipient Award Official.)

(b) Sub recipients shall obtain the wage determination for the locality in which a covered activity subject to DB will take place prior to issuing requests for bids, proposals, quotes or other methods for soliciting contracts (solicitation) for activities subject to DB. These wage



determinations shall be incorporated into solicitations and any subsequent contracts. Prime contracts must contain a provision requiring that subcontractors follow the wage determination incorporated into the prime contract.

(i) While the solicitation remains open, the sub-recipient shall monitor [www.wdol.gov](http://www.wdol.gov) on a weekly basis to ensure that the wage determination contained in the solicitation remains current. The sub recipients shall amend the solicitation if DOL issues a modification more than 10 days prior to the closing date (i.e. bid opening) for the solicitation. If DOL modifies or supersedes the applicable wage determination less than 10 days prior to the closing date, the sub recipients may request a finding from the State recipient that there is not a reasonable time to notify Interested contractors of the modification of the wage determination. The State recipient will provide a report of its findings to the sub recipient.

(ii) If the sub recipient does not award the contract within 90 days of the closure of the solicitation, any modifications or supersedes DOL makes to the wage determination contained in the solicitation shall be effective unless the State recipient, at the request of the sub recipient, obtains an extension of the 90 day period from DOL pursuant to 29 CFR 1.6(c)(3)(iv). The sub recipient shall monitor [www.wdol.gov](http://www.wdol.gov) on a weekly basis if it does not award the contract within 90 days of closure of the solicitation to ensure that wage determinations contained in the solicitation remain current.

(c) If the sub recipient carries out activity subject to DB by issuing a task order, work assignment or similar instrument to an existing contractor (ordering instrument) rather than by publishing a solicitation, the sub recipient shall insert the appropriate DOL wage determination from [www.wdol.gov](http://www.wdol.gov) into the ordering instrument.

(d) Sub recipients shall review all subcontracts subject to DB entered into by prime contractors to verify that the prime contractor has required its subcontractors to include the applicable wage determinations.

(e) As provided in 29 CFR 1.6(f), DOL may issue a revised wage determination applicable to a sub recipient's contract after the award of a contract or the issuance of an ordering instrument if DOL determines that the sub recipient has failed to incorporate a wage determination or has used a wage determination that clearly does not apply to the contract or ordering instrument. If this occurs, the sub recipient shall either terminate the contract or ordering instrument and issue a revised solicitation or ordering instrument or incorporate DOL's wage determination retroactive to the beginning of the contract or ordering instrument by change order. The sub recipient's contractor must be compensated for any increases in wages resulting from the use of DOL's revised wage determination.

### 3. Contract and Subcontract provisions .

(a) The Recipient shall insure that the sub recipient(s) shall insert in full in any contract in excess of \$2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a treatment work under the CWSRF or a construction project under the DWSRF financed in whole or in part from Federal funds or in accordance with guarantees of a Federal agency or financed from funds obtained by pledge of any contract of a Federal agency to make a loan, grant or annual contribution (except where a different meaning is expressly indicated), and which is subject to the labor standards provisions of any of the acts listed in § 5.1 or the FY2016 Consolidated Appropriations Act, the following clauses:

(1) Minimum wages.

(i) All laborers and mechanics employed or working upon the site of the work, will be paid unconditionally and not less often than once a week, and without subsequent deduction or

rebate on any account (except such payroll deductions as are permitted by regulations issued by the Secretary of Labor under the Copeland Act (29 CFR part 3)), the full amount of wages and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics.

Contributions made or costs reasonably anticipated for bona fide fringe benefits under section 1(b)(2) of the Davis-Bacon Act on behalf of laborers or mechanics are considered wages paid to such laborers or mechanics, subject to the provisions of paragraph (a)(1)(iv) of this section; also, regular contributions made or costs incurred for more than a weekly period (but not less often than quarterly) under plans, funds, or programs which cover the particular weekly period, are deemed to be constructively made or incurred during such weekly period. Such laborers and mechanics shall be paid the appropriate wage rate and fringe benefits on the wage determination for the classification of work actually performed, without regard to skill, except as provided in § 5.5(a)(4). Laborers or mechanics performing work in more than one classification may be compensated at the rate specified for each classification for the time actually worked therein: Provided, that the employer's payroll records accurately set forth the time spent in each classification in which work is performed. The wage determination (including any additional classification and wage rates conformed under paragraph (a)(1)(ii) of this section) and the Davis-Bacon poster (WH-1321) shall be posted at all times by the contractor and its subcontractors at the site of the work in a prominent and accessible place where it can be easily seen by the workers.

Sub recipients may obtain wage determinations from the U.S. Department of Labor's web site, [www.dol.gov](http://www.dol.gov).

(ii)(A) The sub recipient(s), on behalf of EPA, shall require that any class of laborers or mechanics, including helpers, which is not listed in the wage determination and which is to be employed under the contract shall be classified in conformance with the wage determination. The State award official shall approve a request for an additional classification and wage rate and fringe benefits therefore only when the following criteria have been met:

(1) The work to be performed by the classification requested is not performed by a classification in the wage determination; and

(2) The classification is utilized in the area by the construction industry; and

(3) The proposed wage rate, including any bona fide fringe benefits, bears a reasonable relationship to the wage rates contained in the wage determination.

(B) If the contractor and the laborers and mechanics to be employed in the classification (if known), or their representatives, and the sub recipient(s) agree on the classification and wage rate (including the amount designated for fringe benefits where appropriate), documentation of the action taken and the request, including the local wage determination shall be sent by the sub recipient(s) to the State award official. The State award official will transmit the report, to the Administrator of the Wage and Hour Division, Employment Standards Administration, U.S. Department of Labor, Washington, DC 20210 and to the EPA DB Regional Coordinator concurrently. The Administrator, or an authorized representative, will approve, modify, or disapprove every additional classification request within 30 days of receipt and so advise the State award official or will notify the State award official within the 30-day period that additional time is necessary.

(C) In the event the contractor, the laborers or mechanics to be employed in the classification or their representatives, and the and the sub recipient(s) do not agree on the proposed classification and wage rate (including the amount designated for fringe benefits, where

appropriate), the award official shall refer the request, and the local wage determination, including the views of all interested parties and the recommendation of the State award official, to the Administrator for determination. The request shall be sent to the EPA Regional Coordinator concurrently. The Administrator, or an authorized representative, will issue a determination within 30 days of receipt of the request and so advise the contracting officer or will notify the contracting officer within the 30-day period that additional time is necessary.

(D) The wage rate (including fringe benefits where appropriate) determined pursuant to paragraphs

(a)(1)(ii)(B) or (C) of this section, shall be paid to all workers performing work in the classification under this contract from the first day on which work is performed in the classification.

(iii) Whenever the minimum wage rate prescribed in the contract for a class of laborers or mechanics includes a fringe benefit which is not expressed as an hourly rate, the contractor shall either pay the benefit as stated in the wage determination or shall pay another bona fide fringe benefit or an hourly cash equivalent thereof.

(iv) If the contractor does not make payments to a trustee or other third person, the contractor may consider as part of the wages of any laborer or mechanic the amount of any costs reasonably anticipated in providing bona fide fringe benefits under a plan or program, Provided, That the Secretary of Labor has found, upon the written request of the contractor, that the applicable standards of the Davis-Bacon Act have been met. The Secretary of Labor may require the contractor to set aside in a separate account assets for the meeting of obligations under the plan or program.

(2) Withholding. The sub recipient(s) shall upon written request of the EPA Award Official or an authorized representative of the Department of Labor, withhold or cause to be withheld from the contractor under this contract or any other Federal contract with the same prime contractor, or any other federally-assisted contract subject to Davis-Bacon prevailing wage requirements, which is held by the same prime contractor, so much of the accrued payments or advances as may be considered necessary to pay laborers and mechanics, including apprentices, trainees, and helpers, employed by the contractor or any subcontractor the full amount of wages required by the contract. In the event of failure to pay any laborer or mechanic, including any apprentice, trainee, or helper, employed or working on the site of the work, all or part of the wages required by the contract, the (Agency) may, after written notice to the contractor, sponsor, applicant, or owner, take such action as may be necessary to cause the suspension of any further payment, advance, or guarantee of funds until such violations have ceased.

(3) Payrolls and basic records.

(i) Payrolls and basic records relating thereto shall be maintained by the contractor during the course of the work and preserved for a period of three years thereafter for all laborers and mechanics working at the site of the work. Such records shall contain the name, address, and social security number of each such worker, his or her correct classification, hourly rates of wages paid (including rates of contributions or costs anticipated for bona fide fringe benefits or cash equivalents thereof of the types described in section 1(b)(2)(B) of the Davis-Bacon Act), daily and weekly number of hours worked, deductions made and actual wages paid. Whenever the Secretary of Labor has found under 29 CFR 5.5(a)(1)(iv) that the wages of any laborer or mechanic include the amount of any costs reasonably anticipated in providing benefits under a plan or program described in section 1(b)(2)(B) of the Davis-Bacon Act, the contractor shall maintain records which show that the commitment to provide such benefits is enforceable, that the plan or program is financially responsible, and that the plan or program has been communicated in writing to the laborers or mechanics affected, and records which show the costs anticipated or the actual cost incurred in providing such benefits. Contractors employing

apprentices or trainees under approved programs shall maintain written evidence of the registration of apprenticeship programs and certification of trainee programs, the registration of the apprentices and trainees, and the ratios and wage rates prescribed in the applicable programs.

(ii)(A) The contractor shall submit weekly, for each week in which any contract work is performed, a copy of all payrolls to the sub recipient, that is, the entity that receives the sub-grant or loan from the State capitalization grant recipient. Such documentation shall be available on request of the State recipient or EPA. As to each payroll copy received, the sub recipient shall provide written confirmation in a form satisfactory to the State indicating whether or not the project is in compliance with the requirements of 29 CFR 5.5(a)(1) based on the most recent payroll copies for the specified week. The payrolls shall set out accurately and completely all of the information required to be maintained under 29 CFR 5.5(a)(3)(i), except that full social security numbers and home addresses shall not be included on the weekly payrolls. Instead the payrolls shall only need to include an individually identifying number for each employee (e.g., the last four digits of the employee's social security number). The required weekly payroll information may be submitted in any form desired. Optional Form WH-347 is available for this purpose from the Wage and Hour Division Web site at

<http://www.dol.gov/whd/forms/wh347Instr.htm> or its successor site. The prime contractor is responsible for the submission of copies of payrolls by all subcontractors. Contractors and subcontractors shall maintain the full social security number and current address of each covered worker, and shall provide them upon request to the sub recipient(s) for transmission to the State or EPA if requested by EPA, the State, the contractor, or the Wage and Hour Division of the Department of Labor for purposes of an investigation or audit of compliance with prevailing wage requirements. It is not a violation of this section for a prime contractor to require a subcontractor to provide addresses and social security numbers to the prime contractor for its own records, without weekly submission to the sub recipient(s).

(B) Each payroll submitted shall be accompanied by a "Statement of Compliance," signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract and shall certify the following:

(1) That the payroll for the payroll period contains the information required to be provided under § 5.5

(a)(3)(ii) of Regulations, 29 CFR part 5, the appropriate information is being maintained under § 5.5

(a)(3)(i) of Regulations, 29 CFR part 5, and that such information is correct and complete;

(2) That each laborer or mechanic (including each helper, apprentice, and trainee) employed on the contract during the payroll period has been paid the full weekly wages earned, without rebate, either directly or indirectly, and that no deductions have been made either directly or indirectly from the full wages earned, other than permissible deductions as set forth in Regulations, 29 CFR part 3;

(3) That each laborer or mechanic has been paid not less than the applicable wage rates and fringe benefits or cash equivalents for the classification of work performed, as specified in the applicable wage determination incorporated into the contract.

(C) The weekly submission of a properly executed certification set forth on the reverse side of Optional Form WH-347 shall satisfy the requirement for submission of the "Statement of Compliance" required by paragraph (a)(3)(ii)(B) of this section.

(D) The falsification of any of the above certifications may subject the contractor or subcontractor to civil or criminal prosecution under section 1001 of title 18 and section 231 of title 31 of the United

States Code.

(iii) The contractor or subcontractor shall make the records required under paragraph (a)(3)(i) of this section available for inspection, copying, or transcription by authorized representatives of the State,

EPA or the Department of Labor, and shall permit such representatives to interview employees during working hours on the job. If the contractor or subcontractor fails to submit the required records or to make them available, the Federal agency or State may, after written notice to the contractor, sponsor, applicant, or owner, take such action as may be necessary to cause the suspension of any further payment, advance, or guarantee of funds. Furthermore, failure to submit the required records upon request or to make such records available may be grounds for debarment action pursuant to 29 CFR

5.12.

(4) Apprentices and trainees --

(i) Apprentices. Apprentices will be permitted to work at less than the predetermined rate for the work they performed when they are employed pursuant to and individually registered in a bona fide apprenticeship program registered with the U.S. Department of Labor, Employment and Training Administration, Office of Apprenticeship Training, Employer and Labor Services, or with a State Apprenticeship Agency recognized by the Office, or if a person is employed in his or her first 90 days of probationary employment as an apprentice in such an apprenticeship program, who is not individually registered in the program, but who has been certified by the Office of Apprenticeship Training, Employer and Labor Services or a State Apprenticeship Agency (where appropriate) to be eligible for probationary employment as an apprentice. The allowable ratio of apprentices to journeymen on the job site in any craft classification shall not be greater than the ratio permitted to the contractor as to the entire work force under the registered program. Any worker listed on a payroll at an apprentice wage rate, who is not registered or otherwise employed as stated above, shall be paid not less than the applicable wage rate on the wage determination for the classification of work actually performed. In addition, any apprentice performing work on the job site in excess of the ratio permitted under the registered program shall be paid not less than the applicable wage rate on the wage determination for the work actually performed. Where a contractor is performing construction on a project in a locality other than that in which its program is registered, the ratios and wage rates (expressed in percentages of the journeyman's hourly rate) specified in the contractor's or subcontractors registered program shall be observed. Every apprentice must be paid at not less than the rate specified in the registered program for the apprentice's level of progress, expressed as a percentage of the journeymen hourly rate specified in the applicable wage determination. Apprentices shall be paid fringe benefits in accordance with the provisions of the apprenticeship program. If the apprenticeship program does not specify fringe benefits, apprentices must be paid the full amount of fringe benefits listed on the wage determination for the applicable classification. If the Administrator determines that a different practice prevails for the applicable apprentice classification, fringes shall be paid in accordance with that determination. In the event the Office of Apprenticeship Training, Employer and Labor Services, or a State Apprenticeship Agency recognized by the Office, withdraws approval of an apprenticeship program, the contractor will no longer be permitted to utilize apprentices at less than the applicable predetermined rate for the work performed until an acceptable program is approved.

(ii) Trainees. Except as provided in 29 CFR 5.16, trainees will not be permitted to work at less than the predetermined rate for the work performed unless they are employed pursuant to and individually registered in a program which has received prior approval, evidenced by formal certification by the U.S. Department of Labor, Employment and Training Administration. The

ratio of trainees to journeymen on the job site shall not be greater than permitted under the plan approved by the Employment and Training Administration. Every trainee must be paid at not less than the rate specified in the approved program for the trainee's level of progress, expressed as a percentage of the journeyman hourly rate specified in the applicable wage determination. Trainees shall be paid fringe benefits in accordance with the provisions of the trainee program. If the trainee program does not mention fringe benefits, trainees shall be paid the full amount of fringe benefits listed on the wage determination unless the Administrator of the Wage and Hour Division determines that there is an apprenticeship program associated with the corresponding journeyman wage rate on the wage determination which provides for less than full fringe benefits for apprentices. Any employee listed on the payroll at a trainee rate who is not registered and participating in a training plan approved by the Employment and Training Administration shall be paid not less than the applicable wage rate on the wage determination for the classification of work actually performed. In addition, any trainee performing work on the job site in excess of the ratio permitted under the registered program shall be paid not less than the applicable wage rate on the wage determination for the work actually performed. In the event the Employment and Training Administration withdraws approval of a training program, the contractor will no longer be permitted to utilize trainees at less than the applicable predetermined rate for the work performed until an acceptable program is approved.

(iii) Equal employment opportunity. The utilization of apprentices, trainees and journeymen under this part shall be in conformity with the equal employment opportunity requirements of Executive Order 11246, as amended and 29 CFR part 30.

(5) Compliance with Copeland Act requirements. The contractor shall comply with the requirements of 29 CFR part 3, which are incorporated by reference in this contract.

(6) Subcontracts. The contractor or subcontractor shall insert in any subcontracts the clauses contained in 29 CFR 5.5(a)(1) through (10) and such other clauses as the EPA determines may be appropriate, and also a clause requiring the subcontractors to include these clauses in any lower tier subcontracts. The prime contractor shall be responsible for the compliance by any subcontractor or lower tier subcontractor with all the contract clauses in 29 CFR 5.5.

(7) Contract termination: debarment. A breach of the contract clauses in 29 CFR 5.5 may be grounds for termination of the contract, and for debarment as a contractor and a subcontractor as provided in 29 CFR 5.12.

(8) Compliance with Davis-Bacon and Related Act requirements. All rulings and interpretations of the Davis-Bacon and Related Acts contained in 29 CFR parts 1, 3, and 5 are herein incorporated by reference in this contract.

(9) Disputes concerning labor standards. Disputes arising out of the labor standards provisions of this contract shall not be subject to the general disputes clause of this contract. Such disputes shall be resolved in accordance with the procedures of the Department of Labor set forth in 29 CFR parts 5, 6, and 7. Disputes within the meaning of this clause include disputes between the contractor (or any of its subcontractors) and Sub recipient(s), State, EPA, the U.S. Department of Labor, or the employees or their representatives.

(10) Certification of eligibility.

(i) By entering into this contract, the contractor certifies that neither it (nor he or she) nor any person or firm who has an interest in the contractor's firm is a person or firm ineligible to be awarded Government contracts by virtue of section 3(a) of the Davis-Bacon Act or 29 CFR 5.12(a)(1).

(ii) No part of this contract shall be subcontracted to any person or firm ineligible for award of a

Government contract by virtue of section 3(a) of the Davis-Bacon Act or 29 CFR 5.12(a)(1).  
(iii) The penalty for making false statements is prescribed in the U.S. Criminal Code, 18 U.S.C. 1001.

#### 4. Contract Provision for Contracts in Excess of \$100,000.

(a) Contract Work Hours and Safety Standards Act. The sub recipient shall insert the following clauses set forth in paragraphs (a)(1), (2), (3), and (4) of this section in full in any contract in an amount in excess of \$100,000 and subject to the overtime provisions of the Contract Work Hours and Safety Standards Act. These clauses shall be inserted in addition to the clauses required by Item 3, above or 29 CFR 4.6. As used in this paragraph, the terms laborers and mechanics include watchmen and guards.

(1) Overtime requirements. No contractor or subcontractor contracting for any part of the contract work which may require or involve the employment of laborers or mechanics shall require or permit any such laborer or mechanic in any workweek in which he or she is employed on such work to work in excess of forty hours in such workweek unless such laborer or mechanic receives compensation at a rate not less than one and one-half times the basic rate of pay for all hours worked in excess of forty hours in such workweek.

(2) Violation; liability for unpaid wages; liquidated damages. In the event of any violation of the clause set forth in paragraph (b)(1) of this section the contractor and any subcontractor responsible therefore shall be liable for the unpaid wages. In addition, such contractor and subcontractor shall be liable to the United States (in the case of work done under contract for the District of Columbia or a territory, to such District or to such territory), for liquidated damages. Such liquidated damages shall be computed with respect to each individual laborer or mechanic, including watchmen and guards, employed in violation of the clause set forth in paragraph (b)(1) of this section, in the sum of \$10 for each calendar day on which such individual was required or permitted to work in excess of the standard workweek of forty hours without payment of the overtime wages required by the clause set forth in paragraph (b)(1) of this section.

(3) Withholding for unpaid wages and liquidated damages. The sub recipient shall upon the request of the EPA Award Official or an authorized representative of the Department of Labor, withhold or cause to be withheld, from any moneys payable on account of work performed by the contractor or subcontractor under any such contract or any other Federal contract with the same prime contractor, or any other federally-assisted contract subject to the Contract Work Hours and Safety Standards Act, which is held by the same prime contractor, such sums as may be determined to be necessary to satisfy any liabilities of such contractor or subcontractor for unpaid wages and liquidated damages as provided in the clause set forth in paragraph (a)(2) of this section.

(4) Subcontracts. The contractor or subcontractor shall insert in any subcontracts the clauses set forth in paragraph (a)(1) through (4) of this section and also a clause requiring the subcontractors to include these clauses in any lower tier subcontracts. The prime contractor shall be responsible for compliance by any subcontractor or lower tier subcontractor with the clauses set forth in paragraphs (a)(1) through (4) of this section.

(c) In addition to the clauses contained in Item 3, above, in any contract subject only to the Contract

Work Hours and Safety Standards Act and not to any of the other statutes cited in 29 CFR 5.1, the Sub recipient shall insert a clause requiring that the contractor or subcontractor shall maintain payrolls and basic payroll records during the course of the work and shall preserve them for a period of three years from the completion of the contract for all laborers and mechanics, including guards and watchmen, working on the contract. Such records shall contain the name and address of each such employee, social security number, correct classifications,

hourly rates of wages paid, daily and weekly number of hours worked, deductions made, and actual wages paid. Further, the Sub recipient shall insert in any such contract a clause providing that the records to be maintained under this paragraph shall be made available by the contractor or subcontractor for inspection, copying, or transcription by authorized representatives of the (write the name of agency) and the Department of Labor, and the contractor or subcontractor will permit such representatives to interview employees during working hours on the job.

#### 5. Compliance Verification

(a) The sub recipient shall periodically interview a sufficient number of employees entitled to DB prevailing wages (covered employees) to verify that contractors or subcontractors are paying the appropriate wage rates. As provided in 29 CFR 5.6(a)(6), all interviews must be conducted in confidence. The sub recipient must use Standard Form 1445 (SF 1445) or equivalent documentation to memorialize the interviews. Copies of the SF 1445 are available from EPA on request.

(b) The sub recipient shall establish and follow an interview schedule based on its assessment of the risks of noncompliance with DB posed by contractors or subcontractors and the duration of the contract or subcontract. Sub recipients must conduct more frequent interviews if the initial interviews or other information indicated that there is a risk that the contractor or subcontractor is not complying with DB. Sub recipients shall immediately conduct interviews in response to an alleged violation of the prevailing wage requirements. All interviews shall be conducted in confidence."

(c) The sub recipient shall periodically conduct spot checks of a representative sample of weekly payroll data to verify that contractors or subcontractors are paying the appropriate wage rates. The sub recipient shall establish and follow a spot check schedule based on its assessment of the risks of noncompliance with DB posed by contractors or subcontractors and the duration of the contract or subcontract. At a minimum, if practicable the sub recipient should spot check payroll data within two weeks of each contractor or subcontractor's submission of its initial payroll data and two weeks prior to the completion date the contract or subcontract. Sub recipients must conduct more frequent spot checks if the initial spot check or other information indicates that there is a risk that the contractor or subcontractor is not complying with DB. In addition, during the examinations the sub recipient shall verify evidence of fringe benefit plans and payments there under by contractors and subcontractors who claim credit for fringe benefit contributions.

(d) The sub recipient shall periodically review contractors and subcontractors use of apprentices and trainees to verify registration and certification with respect to apprenticeship and training programs approved by either the U.S Department of Labor or a state, as appropriate, and that contractors and subcontractors are not using disproportionate numbers of laborers, trainees and apprentices. These reviews shall be conducted in accordance with the schedules for spot checks and interviews described in Item 5(b) and (c) above.

(e) Sub recipients must immediately report potential violations of the DB prevailing wage requirements to the EPA DB contact listed above and to the appropriate DOL Wage and Hour District Office listed at <http://www.dol.gov/whd/america2.htm>





Department of Health  
 Three Capitol Hill  
 Providence, RI 02908-5001  
 TTY: 711  
 www.health.ri.gov

## DWSRF CERTIFICATE OF APPROVAL

Providence Water has met the program requirements of the Drinking Water State Revolving Fund (DWSRF) for the proposed Replacement of Lead Services and Replace or Reline Water Mains project comprised of drawings and specifications prepared by Providence Water and is eligible to apply for an SRF loan from the Rhode Island Clean Water Finance Agency for various aspects of the project. The project consists of the replacement of approximately 19,000 service connections and relining or replacement of approximately 75,000 feet of water mains. The estimated project cost of up to \$100,000,000.00 includes either copper or polyethylene service connections; curb stops, curb boxes, fittings, valving, new piping, cement lining, fire hydrants and appurtenances. Providence Water has certified that it will comply with the requirements of applicable State and Federal laws in the application package. The following conditions detail certain specific requirements for this construction project:

1. Providence Water is responsible for obtaining any other necessary permits including a RIDDES permit if the water used to flush and disinfect the piping system is discharged to a storm drain or approvals from any Federal or State agency with authority over the project or project area.
2. All Construction related costs incurred prior to July 29, 2007 are ineligible for DWSRF Program Participation.
3. Short-term construction related impacts shall be mitigated by utilizing standard sedimentation and erosion control methods during construction.
4. All applicable architectural/engineering reports and plans are to be submitted upon their availability.
5. The project may occur over a nine (9) year period and that additional loans may be secured with time over the course of the project. Therefore a certified copy of a resolution of the governing body of the public water system directing the CEO to submit an application for DWSRF assistance shall be submitted to the Rhode Island Clean Water Finance Agency (copy to be submitted HEALTH) each time an additional loan is requested to finance the replacement of lead services and the relining or replacing water mains project.

*Julie Swallow*  
 Julie Swallow, P.E., Chief  
 Office of Drinking Water Quality

*4/25/08*  
 DATE

Project Name: Replace Lead Services - Replace or Line Water Mains  
 Project Number: DWSRF-08-15

cc: Rhode Island Clean Water Finance Agency  
 Rhode Island WBE/MBB compliance office



Department of Health  
Three Capitol Hill  
Providence, RI 02908-5097  
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Division of Drinking Water Quality  
Drinking Water State Revolving Fund (DWSRF) Program

**Categorical Exclusion**

The Office of Drinking Water Quality has reviewed a proposed replacement lead services, and water main rehabilitation/ replacement project submitted by Providence Water and has concluded that the project qualifies for a **CATEGORICAL EXCLUSION** in accordance with the requirements of RIGL 46-12.8 and the "Rules and Regulations pertaining to the Drinking Water State Revolving Fund", dated March 1998. The proposed project will not impact the environment either by itself or in combination with other projects, and the information provided has met the statutory intent of the Federal Clean Water Act environmental review requirements and is sufficient to issue a **CATEGORICAL EXCLUSION**.

Project Name: Replace Lead Services, Replace or Reline Water Mains

DWSRF Program Number: DWSRF 08-15

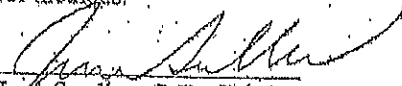
Project Location: Providence Water's service area within the cities of Providence, Cranston, Johnston, and North Providence, RI.

Project Description: By EPA Regulations Providence Water is consequently required to replace 7% of the total number of lead service lines annually up until the time all (25,600) the lead service lines are replaced or until such time in accordance with the Lead and Copper Rule they meet the "Lead Action Level", and are no longer required to replace lead services at the current rate and regulatory terms and conditions. In-kind water main replacement or water main relining is also part of Providence Water's Project.

Anticipated Environmental Impacts: Impacts will be minor and short term in duration (i.e. erosion, dust, noise, air quality, and traffic).

Specific Requirements: 1) A RIPDES permit be obtained if the water used to flush the new main is to be discharged to the storm drain system.

2) Short-term excavation related impacts shall be mitigated by utilizing standard sedimentation and erosion control methods. Fugitive dust related impacts shall be mitigated by using standard dust control methods.

  
Julie Swallow, P.E., Chief  
Office of Drinking Water Quality

2/15/08  
DATE

Testimony  
of  
GREGG M. GIASSON, PE  
before the  
RI DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN SUPPORT OF APPLICATION FOR AUTHORIZATION TO BORROW FROM THE  
DRINKING WATER STATE REVOLVING FUND IN AN AMOUNT UP TO \$17,000,000

for  
  
PROVIDENCE WATER

January 4<sup>th</sup>, 2017

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

2   A.    My name is Gregg M. Giasson and I am the Deputy General Manager of  
3       Operations/Executive Engineer for the Providence Water Supply Board. I have general  
4       oversight of the Engineering, Water Supply and Transmission & Distribution Departments.

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

6   A.    I obtained a Masters of Science in Environmental Engineering from Worcester Polytechnic  
7       Institute in 2001 and a Bachelor of Science in Civil Engineering from Tufts University in  
8       1992. I have worked for the Providence Water Supply Board for three and a half years, the  
9       first two years as the Senior Director of Operations and the last year and a half as the Deputy  
10      General Manager of Operations/Executive Engineer. From 2008 to 2012, I worked for the  
11      Pawtucket Water Supply Board as the Assistant Chief Engineer/Chief of Operations. Prior to  
12      Pawtucket, I worked at the consulting firm Camp, Dresser & McKee for 12 years where I  
13      worked on a variety of drinking water projects as both a project engineer and project  
14      manager. I am a Registered Professional Engineer in the State of Rhode Island.

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

16   A.    The funds for this borrowing will primarily be used for distribution water main rehabilitation.

17   **Q.    What is the method for rehabilitation of the distribution water mains?**

18   A.    Providence Water utilizes two methods of distribution water main rehabilitation; (1)  
19      complete replacement, or (2) cleaning and lining.

20       The replacement of water mains involves replacing the existing main in its entirety.

21       Cleaning & lining involves the scraping of the existing main, and the relining of the main  
22       with cement mortar. The method of rehabilitation for a particular main depends on factors

1 such as; (1) the condition of the main, (2) the location of the main (urban area versus rural  
2 area), and (3) location and amount of other utilities.

3 **Q. How many miles of main does Providence Water plan on rehabilitating each year?**

4 A. Since 1997, Providence Water has rehabilitated approximately 47 miles of water main in our  
5 distribution system (See **Exhibit GMG-1**). The amount of main rehabilitated per year  
6 increased significantly as part of the Consent Agreement made with the RIDOH in 2013. In  
7 addition, a good portion of the water main in our distribution system is either at or beyond its  
8 useful life. Consequently, on a perpetual basis, Providence Water will attempt to rehabilitate  
9 a minimum of 10 miles of water main per year. As shown in **Exhibit GMG-1**, the cost per  
10 foot to rehabilitate water main varies. This is due to several factors, including but not limited  
11 to the following:

12 (1) the type of rehabilitation (replacement versus cleaning and lining);

13 (2) the amount of other utilities in the roadway;

14 (3) the amount of pavement restoration and police details;

15 (4) contractor availability and current economic conditions;

16 (5) the location of the work (urban area versus rural area); and

17 (6) the amount and type of services (copper versus lead).

18 As part of the design process, Providence Water analyzes the area where the main  
19 rehabilitation is taking place and determines the best method for minimizing the cost per  
20 foot. As of FY2015 (see **Exhibit GMG-1**), the average cost per foot for main rehabilitation  
21 was approximately \$232/foot. Therefore, if this cost applies in FY2018, Providence Water

1 will accomplish ~14 miles of main rehab in FY2018. If the cost per foot is more, less main  
2 will be rehabilitated, and vice versa.

3 **Q. Is Providence Water still under a Consent Agreement with the RIDOH?**

4 A. At this time, no. Providence Water had previously entered into a Consent Agreement with  
5 RIDOH because of Providence Water's non-compliance with the Lead and Copper Rule  
6 (LCR). However, Providence Water was below the Lead Action Limit (LAL) of 15 parts per  
7 billion (ppb) for three consecutive 6-month semesters (January through June of 2015, July  
8 through December of 2015, and January through June of 2016). As a result, Providence  
9 Water was in compliance with the LCR and was not required to enter into a Consent  
10 Agreement with RIDOH. We are still awaiting the results of the current semester of July  
11 through December of 2017.

12 **Q. Does Providence Water still replace lead service lines?**

13 A. Yes. Providence Water will replace lead services as part of our main rehabilitation work. In  
14 addition, outside of main rehabilitation work, Providence Water will replace the public side  
15 (from the water main to the curb stop) of a lead service if a customer replaces their side of a  
16 lead service (from the curb stop to the meter).

17 **Q. Mr. Giasson, does that conclude your testimony?**

18 A. Yes, it does

**Exhibit GMG-1**  
**Main Rehabilitation FY1997 through FY2016**

<u>Fiscal Year</u>	<u>Total Main Rehabilitation Cost</u>	<u>Total Main Replaced (Feet)</u>	<u>Total Main Replaced (Miles)</u>	<u>Cost per foot</u>
1997	\$770,100	7,700	1.5	\$100
1998	\$2,061,231	16,963	3.2	\$122
1999				
2000				
2001	\$365,998	1,759	0.3	\$208
2002	\$188,352	2,063	0.4	\$91
2003				
2004				
2005	\$225,521	2,943	0.6	\$77
2006	\$1,198,643	4,989	0.9	\$240
2007				
2008	\$1,132,446	4,417	0.8	\$256
2009	\$1,141,087	6,825	1.3	\$167
2010	\$1,449,485	7,330	1.4	\$198
2011	\$8,603,842	39,141	7.4	\$220
2012	\$6,732,891	19,499	3.7	\$345
2013	\$8,690,291	35,275	6.7	\$246
2014	\$13,929,440	45,553	8.6	\$306
2015	\$11,430,705	55,102	10.4	\$207
2016	\$15,665,467	67,205	12.7	\$233
<b>Totals</b>	<b>\$73,585,498</b>	<b>316,764</b>	<b>60</b>	<b>\$232</b>

TESTIMONY

of

MAUREEN E. GURGHIGIAN

before the

RI DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN SUPPORT OF PROVIDENCE WATER SUPPLY BOARD'S  
APPLICATION FOR AUTHORIZATION TO BORROW  
FROM THE DRINKING WATER STATE REVOLVING FUND  
IN AN AMOUNT  
NOT TO EXCEED \$17,000,000

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**November 2016**  
Docket No. D-17-



**PROVIDENCE WATER SUPPLY BOARD  
TESTIMONY OF  
MAUREEN E. GURGHIGIAN  
November 2016**

1   **Q: Please state your name and business address.**

2   A: My name is Maureen E. Gurghigian and I am a Managing Director at First  
3       Southwest Company's Lincoln, Rhode Island office.

4  
5   **Q: Please state your duties at First Southwest Company.**

6   A: I provide financial advisory services to issuers of municipal debt, primarily in the  
7       State of Rhode Island. In addition, I have supervisory responsibility for First  
8       Southwest's involvement with borrowings by numerous public agencies including  
9       the Rhode Island Infrastructure Bank and approximately 20 Rhode Island  
10      municipalities. The firm serves approximately 2000 municipal issuers, including  
11      more than 400 in New England. The Rhode Island office assists clients with the  
12      origination of more than \$800 million in public financing issues annually.

13  
14   **Q: Please describe your qualifications and experience.**

15   A: I hold a Masters Degree in business administration from the University of Rhode  
16      Island. I am a registered Municipal Principal with the Municipal Securities  
17      Rulemaking Board, holding the following licenses: Series 52, Series 53 and Series  
18      63. Prior to joining First Southwest in 2001, I worked in public finance for Fleet  
19      Bank and/or Fleet Securities for 16 years. Before joining Fleet, I spent 8 years in  
20      Rhode Island State Government, including four years as Director of the Governor's  
21      Policy Office under then Governor J. Joseph Garrahy.

22  
23   **Q: Have you previously testified before the Public Utilities Commission and**  
24      **Division of Public Utilities and Carriers?**

25   A: Yes, I have provided testimony before the Public Utilities Commission and the  
26      Division of Public Utilities and Carriers ("Division") on behalf of the Narragansett  
27      Bay Commission, Woonsocket Water Division, Pawtucket Water Supply Board, the  
28      City of Newport, Water Division and the Providence Water Supply Board  
29      ("Providence Water").

30

**PROVIDENCE WATER SUPPLY BOARD**  
**TESTIMONY OF**  
**MAUREEN E. GURGHIGIAN**  
**November 2016**

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

2   A: I am providing assistance to Providence Water and its financing team with respect  
3   to the issuance of debt through the Rhode Island Infrastructure Bank ("RIIB"). I  
4   have been asked by Providence Water to provide information on the debt service  
5   requirements for its proposed borrowing, and to respond to related questions.

6

7   **Q: Please discuss Providence Water's financing plans.**

8   A. As set forth in its Application for Approval of Borrowing Authority, Providence  
9   Water seeks to obtain a loan in the amount of up to seventeen million dollars  
10   (\$17,000,000), through revenue bonds sold by RIIB for the Rhode Island Safe  
11   Drinking Water State Revolving Fund (DWSRF) for financing continued  
12   improvements to the distribution system including but not limited to the cleaning,  
13   relining, repair and replacement of water mains, transmission lines, service lines,  
14   and valves, and all attendant expenses (the "Project"). Nancy Parrillo has described  
15   the project in her testimony, and I will provide the details of the financing for the  
16   project.

17

18   **Q. Can you explain how the financing will work for the \$17,000,000 borrowing?**

19   A. Yes. In accordance with the Safe Drinking Water Act Amendments of 1996, the  
20   State of Rhode Island has created a Drinking Water State Revolving Fund  
21   administered by the RIIB to provide financial assistance to water suppliers. This  
22   fund uses federal capitalization grants and state matching funds to provide  
23   subsidized (25% below market-rate) loans to water suppliers for qualifying projects  
24   listed on the Project Priority List maintained by the Department of Health. The  
25   RIIB sells bonds in the public market and loans the proceeds to its drinking water  
26   borrowers pursuant to loan agreements. This project has been identified in  
27   Providence Water's capital program, and is listed on the Department of Health's  
28   Project Priority List. Therefore, this project is eligible for a subsidized DWSRF  
29   loan through RIIB.

30

**PROVIDENCE WATER SUPPLY BOARD**  
**TESTIMONY OF**  
**MAUREEN E. GURGHIGIAN**  
**November 2016**

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

2   A. The term is approximately 20 years from the projected completion of construction.  
3       The expected interest cost will reflect a subsidized rate of 25% off the current  
4       market rates. Based upon market conditions as of May 12, 2016, it is anticipated  
5       that the loan will not exceed a market rate of 3.911%, which would result in a  
6       projected subsidized rate of approximately 2.848%.

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

9   A: Approximately \$15,000,000 will be available for Project funds, approximately  
10       \$1,172,794 will be set aside in the debt service reserve fund, and approximately  
11       \$226,405 is allocated for costs of issuance, including rating agency fees, bond  
12       counsel, financial advisor and trustee fees, and the RIIB origination fee.

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

15   A: This borrowing will be done when RIIB sells its revenue bonds for the DWSRF,  
16       which is anticipated to take place in the first or second quarter of 2017. RIIB  
17       requires that all borrower approvals be in place prior to mailing the RIIB  
18       Preliminary Official Statement.

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

22   A. The projected debt service for the new borrowings is displayed in Schedule MG-1.  
23       For the \$17,000,000 debt, annual debt service is expected to increase by  
24       approximately \$1,180,000 per year at the projected interest rates. This amount is  
25       subject to change based upon the actual project costs, draw schedule and prevailing  
26       interest rates at the time of borrowing.

27  
28   **Q: Does this complete your testimony?**

29   A: Yes it does.

**Rhode Island Infrastructure Bank**  
**Safe Drinking Water Revolving Fund Revenue Bonds, Series 2017**  
**Rates as of 5/12/2016 Plus 100 BP - Preliminary Subject to Change**

**Calculation of Borrower Rate**

Providence WSB - \$16.399M DWSRF Agency Loan (A Rated, Revenue Pledge)

Borrower:	Providence WSB	Highest Rating:	A
Rate Lock Date:	06/10/16	MMD Scale:	Revenue-A
Closing Date:	03/08/17	Zero% Subsidy:	-
Pledge:	Revenue	DSR Required:	Yes

Maturity	Market Rate	Less 25% Subsidy	Subsidized Rate	Loan Rate	Plus Admin. Fee	Total Borrower Billing Rate
2017	1.590%	-0.400%	1.190%	1.190%	0.500%	1.690%
2018	1.850%	-0.460%	1.390%	1.390%	0.500%	1.890%
2019	1.990%	-0.500%	1.490%	1.490%	0.500%	1.990%
2020	2.170%	-0.540%	1.630%	1.630%	0.500%	2.130%
2021	2.370%	-0.590%	1.780%	1.780%	0.500%	2.280%
2022	2.560%	-0.640%	1.920%	1.920%	0.500%	2.420%
2023	2.740%	-0.690%	2.050%	2.050%	0.500%	2.550%
2024	2.890%	-0.720%	2.170%	2.170%	0.500%	2.670%
2025	3.090%	-0.770%	2.320%	2.320%	0.500%	2.820%
2026	3.490%	-0.870%	2.620%	2.620%	0.500%	3.120%
2027	3.720%	-0.930%	2.790%	2.790%	0.500%	3.290%
2028	3.910%	-0.980%	2.930%	2.930%	0.500%	3.430%
2029	4.040%	-1.010%	3.030%	3.030%	0.500%	3.530%
2030	4.010%	-1.000%	3.010%	3.010%	0.500%	3.510%
2031	4.040%	-1.010%	3.030%	3.030%	0.500%	3.530%
2032	4.070%	-1.020%	3.050%	3.050%	0.500%	3.550%
2033	4.100%	-1.030%	3.070%	3.070%	0.500%	3.570%
2034	4.120%	-1.030%	3.090%	3.090%	0.500%	3.590%
2035	4.140%	-1.040%	3.100%	3.100%	0.500%	3.600%
2036	4.170%	-1.040%	3.130%	3.130%	0.500%	3.630%

**Rhode Island Infrastructure Bank**  
**Safe Drinking Water Revolving Fund Revenue Bonds, Series 2017**  
**Rates as of 5/12/2016 Plus 100 BP - Preliminary Subject to Change**

**Sources & Uses**

Providence WSB - \$16.399M DWSRF Agency Loan (A Rated, Revenue Pledge)

**Sources:**

Agency - Bond Proceeds	16,399,200.00
Direct Loan - State Match	-
Direct Loan - State Match Repayments	-
Fed Direct - 2015 Cap Grant	-
Fed Direct - 2015 Cap Grant "Green"	-
Fed Direct - Revenue Release Funds	-
Fed Direct - De-Allocated List Funds	-
Fed Direct - Prin Forgiveness Funds	-
Total Sources	<u>16,399,200.00</u>

**Uses:**

Agency Loan - Deposit to Construction Fund	15,000,000.00
Principal Forgiveness Funds	-
Deposit to DSRF	1,172,794.36
Capitalized Interest	-
Loan Origination Fee (1.0%)	163,992.00
Costs of Issuance - Local Level	62,413.64
Total Uses	<u>16,399,200.00</u>

Providence WSB - Agency Loan Statistics (Exclusive of Fees):	
Weighted Average Maturity (Years)	11.3806
Market Yield on the Loan:	3.911%
Effective Yield* on Total Agency Loan	2.848%
Net Effective Subsidy:	27.180%

**\*Effective Yield incorporates:**

\* 25% DWSRF Interest Rate Subsidy

**Rhode Island Infrastructure Bank**  
**Safe Drinking Water Revolving Fund Revenue Bonds, Series 2017**  
**Rates as of 5/12/2016 Plus 100 BP - Preliminary Subject to Change**

**Construction Fund Cash Flow**

Providence WSB - \$16.399M DWSRF Agency Loan (A Rated, Revenue Pledge)

Date	Beginning Balance	Loan Proceeds Deposit	Cost of Issuance	Agency Loan Draws	DSRF & Cap-I	Total Draws	Ending Fund Balance	6-Month Const. Draws	% Spent
03/08/17	-	16,399,200.00	226,405.64	-	1,172,794.36	1,399,200.00	15,000,000.00		
04/01/17	15,000,000.00	-	-	2,000,000.00	-	2,000,000.00	13,000,000.00		
05/01/17	13,000,000.00	-	-	2,000,000.00	-	2,000,000.00	11,000,000.00		
06/01/17	11,000,000.00	-	-	2,000,000.00	-	2,000,000.00	9,000,000.00		
07/01/17	9,000,000.00	-	-	2,000,000.00	-	2,000,000.00	7,000,000.00		
08/01/17	7,000,000.00	-	-	2,000,000.00	-	2,000,000.00	5,000,000.00		
09/01/17	5,000,000.00	-	-	2,000,000.00	-	2,000,000.00	3,000,000.00	12,000,000.00	80%
10/01/17	3,000,000.00	-	-	2,000,000.00	-	2,000,000.00	1,000,000.00		
11/01/17	1,000,000.00	-	-	1,000,000.00	-	1,000,000.00	-		
12/01/17	-	-	-	-	-	-	-		
01/01/18	-	-	-	-	-	-	-		
02/01/18	-	-	-	-	-	-	-		
03/01/18	-	-	-	-	-	-	-	3,000,000.00	100%
04/01/18	-	-	-	-	-	-	-		
05/01/18	-	-	-	-	-	-	-		
06/01/18	-	-	-	-	-	-	-		
07/01/18	-	-	-	-	-	-	-		
08/01/18	-	-	-	-	-	-	-		
09/01/18	-	-	-	-	-	-	-	-	100%
10/01/18	-	-	-	-	-	-	-		
11/01/18	-	-	-	-	-	-	-		
12/01/18	-	-	-	-	-	-	-		
01/01/19	-	-	-	-	-	-	-		
02/01/19	-	-	-	-	-	-	-		
03/01/19	-	-	-	-	-	-	-	-	100%
04/01/19	-	-	-	-	-	-	-		
05/01/19	-	-	-	-	-	-	-		
06/01/19	-	-	-	-	-	-	-		
07/01/19	-	-	-	-	-	-	-		
08/01/19	-	-	-	-	-	-	-		
09/01/19	-	-	-	-	-	-	-	-	100%
10/01/19	-	-	-	-	-	-	-		
11/01/19	-	-	-	-	-	-	-		
12/01/19	-	-	-	-	-	-	-		
01/01/20	-	-	-	-	-	-	-		
02/01/20	-	-	-	-	-	-	-		
03/01/20	-	-	-	-	-	-	-	-	100%
04/01/20	-	-	-	-	-	-	-		
05/01/20	-	-	-	-	-	-	-		
06/01/20	-	-	-	-	-	-	-		
								15,000,000.00	
							16,399,200.00	226,405.64	15,000,000.00
							1,172,794.36	16,399,200.00	

**Rhode Island Infrastructure Bank**  
**Safe Drinking Water Revolving Fund Revenue Bonds, Series 2017**  
**Rates as of 5/12/2016 Plus 100 BP - Preliminary Subject to Change**

**Loan Balance**

Providence WSB - \$16.399M DWSRF Agency Loan (A Rated, Revenue Pledge)

Date	Agency Loan Draws	Agency Loan Balance	Interest (1) Accrued @ 2.600%	Semiannual Interest Requirements	Loan Fees @ 0.500%	Semiannual Loan Fees Payable
03/08/17	1,399,200.00	1,399,200.00	-	-	-	-
04/01/17	2,000,000.00	3,399,200.00	2,324.23	-	446.97	-
05/01/17	2,000,000.00	5,399,200.00	7,364.93	-	1,416.33	-
06/01/17	2,000,000.00	7,399,200.00	11,698.27	-	2,249.67	-
07/01/17	2,000,000.00	9,399,200.00	16,031.60	-	3,083.00	-
08/01/17	2,000,000.00	11,399,200.00	20,364.93	-	3,916.33	-
09/01/17	2,000,000.00	13,399,200.00	24,698.27	82,482.23	4,749.67	15,861.97
10/01/17	2,000,000.00	15,399,200.00	29,031.60	-	5,583.00	-
11/01/17	1,000,000.00	16,399,200.00	33,364.93	-	6,416.33	-
12/01/17	-	16,399,200.00	35,531.60	-	6,833.00	-
01/01/18	-	16,399,200.00	35,531.60	-	6,833.00	-
02/01/18	-	16,399,200.00	35,531.60	-	6,833.00	-
03/01/18	-	16,399,200.00	35,531.60	204,522.93	6,833.00	39,331.33
04/01/18	-	-	-	-	-	-
05/01/18	-	-	-	-	-	-
06/01/18	-	-	-	-	-	-
07/01/18	-	-	-	-	-	-
08/01/18	-	-	-	-	-	-
09/01/18	-	-	-	-	-	-
10/01/18	-	-	-	-	-	-
11/01/18	-	-	-	-	-	-
12/01/18	-	-	-	-	-	-
01/01/19	-	-	-	-	-	-
02/01/19	-	-	-	-	-	-
03/01/19	-	-	-	-	-	-
04/01/19	-	-	-	-	-	-
05/01/19	-	-	-	-	-	-
06/01/19	-	-	-	-	-	-
07/01/19	-	-	-	-	-	-
08/01/19	-	-	-	-	-	-
09/01/19	-	-	-	-	-	-
10/01/19	-	-	-	-	-	-
11/01/19	-	-	-	-	-	-
12/01/19	-	-	-	-	-	-
01/01/20	-	-	-	-	-	-
02/01/20	-	-	-	-	-	-
03/01/20	-	-	-	-	-	-
04/01/20	-	-	-	-	-	-
05/01/20	-	-	-	-	-	-
06/01/20	-	-	-	-	-	-
	<u>16,399,200.00</u>		<u>287,005.16</u>	<u>287,005.16</u>	<u>55,193.30</u>	<u>55,193.30</u>

(1) Interest rate represents the weighted average loan rate for the entire loan amortization.

**Rhode Island Infrastructure Bank**  
**Safe Drinking Water Revolving Fund Revenue Bonds, Series 2017**  
**Rates as of 5/12/2016 Plus 100 BP - Preliminary Subject to Change**

**Loan Debt Service**

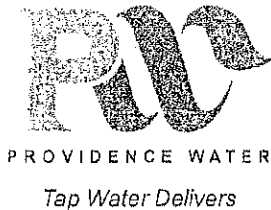
Providence WSB - \$16.399M DWSRF Agency Loan (A Rated, Revenue Pledge)

Date	Principal	Loan Rate	(1) Interest	Net Fees @ 0.500%	Total Fees & Interest	Total Net Debt Service	Annual Net Debt Service & Fees
03/08/17							-
09/01/17	-	1.190%	82,482.23	15,861.97	98,344.20	98,344.20	98,344.20
03/01/18	-	-	204,522.93	39,331.33	243,854.26	243,854.26	-
09/01/18	673,000.00	1.390%	212,869.18	40,998.00	253,867.18	926,867.18	1,170,721.44
03/01/19	-	-	208,191.83	39,316.50	247,507.33	247,507.33	-
09/01/19	686,000.00	1.490%	208,191.83	39,316.50	247,507.33	933,507.33	1,181,014.66
03/01/20	-	-	203,081.13	37,600.50	240,681.63	240,681.63	-
09/01/20	699,000.00	1.630%	203,081.13	37,600.50	240,681.63	939,681.63	1,180,363.26
03/01/21	-	-	197,384.28	35,853.00	233,237.28	233,237.28	-
09/01/21	714,000.00	1.780%	197,384.28	35,853.00	233,237.28	947,237.28	1,180,474.56
03/01/22	-	-	191,029.68	34,068.00	225,097.68	225,097.68	-
09/01/22	730,000.00	1.920%	191,029.68	34,068.00	225,097.68	955,097.68	1,180,195.36
03/01/23	-	-	184,021.68	32,243.00	216,264.68	216,264.68	-
09/01/23	748,000.00	2.050%	184,021.68	32,243.00	216,264.68	964,264.68	1,180,529.36
03/01/24	-	-	176,354.68	30,373.00	206,727.68	206,727.68	-
09/01/24	767,000.00	2.170%	176,354.68	30,373.00	206,727.68	973,727.68	1,180,455.36
03/01/25	-	-	168,032.73	28,455.50	196,488.23	196,488.23	-
09/01/25	788,000.00	2.320%	168,032.73	28,455.50	196,488.23	984,488.23	1,180,976.46
03/01/26	-	-	158,891.93	26,485.50	185,377.43	185,377.43	-
09/01/26	810,000.00	2.620%	158,891.93	26,485.50	185,377.43	995,377.43	1,180,754.86
03/01/27	-	-	148,280.93	24,460.50	172,741.43	172,741.43	-
09/01/27	835,000.00	2.790%	148,280.93	24,460.50	172,741.43	1,007,741.43	1,180,482.86
03/01/28	-	-	136,632.68	22,373.00	159,005.68	159,005.68	-
09/01/28	863,000.00	2.930%	136,632.68	22,373.00	159,005.68	1,022,005.68	1,181,011.36
03/01/29	-	-	123,989.73	20,215.50	144,205.23	144,205.23	-
09/01/29	892,000.00	3.030%	123,989.73	20,215.50	144,205.23	1,036,205.23	1,180,410.46
03/01/30	-	-	110,475.93	17,985.50	128,461.43	128,461.43	-
09/01/30	924,000.00	3.010%	110,475.93	17,985.50	128,461.43	1,052,461.43	1,180,922.86
03/01/31	-	-	96,569.73	15,675.50	112,245.23	112,245.23	-
09/01/31	956,000.00	3.030%	96,569.73	15,675.50	112,245.23	1,068,245.23	1,180,490.46
03/01/32	-	-	82,086.33	13,285.50	95,371.83	95,371.83	-
09/01/32	990,000.00	3.050%	82,086.33	13,285.50	95,371.83	1,085,371.83	1,180,743.66
03/01/33	-	-	66,988.83	10,810.50	77,799.33	77,799.33	-
09/01/33	1,025,000.00	3.070%	66,988.83	10,810.50	77,799.33	1,102,799.33	1,180,598.66
03/01/34	-	-	51,255.08	8,248.00	59,503.08	59,503.08	-
09/01/34	1,062,000.00	3.090%	51,255.08	8,248.00	59,503.08	1,121,503.08	1,181,006.16
03/01/35	-	-	34,847.18	5,593.00	40,440.18	40,440.18	-
09/01/35	1,100,000.00	3.100%	34,847.18	5,593.00	40,440.18	1,140,440.18	1,180,880.36
03/01/36	-	-	17,797.18	2,843.00	20,640.18	20,640.18	-
09/01/36	1,137,200.00	3.130%	17,797.18	2,843.00	20,640.18	1,157,840.18	1,178,480.36
<u>16,399,200.00</u>			<u>5,211,897.42</u>	<u>907,959.30</u>	<u>6,119,656.72</u>	<u>22,518,856.72</u>	<u>22,518,856.72</u>

(1) Interest during construction is calculated based on the timing of expected draws and the overall weighted average loan rate of 2.600%.

(2) Minimum principal amortization is required before Construction Fund is completely drawn.





## 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.

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

The Hon. Jorge O. Elorza  
Mayor

Ricky Caruolo  
General Manager

WHEREAS, the Board desires to make certain improvements to the Board's distribution system and appurtenances thereto, including but not limited to the cleaning, relining, repair and replacement of water mains, transmission lines, service lines and valves (the "Project"); and

### BOARD OF DIRECTORS

Xaykham Khamsyvoravong  
Chairperson

Joseph D. Cataldi  
Vice Chairperson

Michael J. Correia  
Councilperson

Sabina Matos  
Councilperson

Lawrence J. Mancini  
Ex-Officio

Andy M. Andujar  
Member

Kerri Lynn Thurber  
Member

Carissa R. Richard  
Secretary

William E. O'Gara, Esq.  
Legal Advisor

WHEREAS, it is the intent of the Board to borrow funds in an amount, not to exceed eighteen million dollars (\$18,000,000) 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 April 20, 2016 by vote of the members of the Providence Water Supply Board present.

### 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**

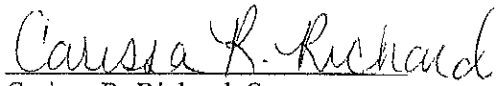
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Xaykham Khamsyvoravong, Chairman  
Providence Water Supply Board

  
Carissa R. Richard, Secretary  
Providence Water Supply Board

**PROVIDENCE WATER**  
**Comparison of Interest Rates**

	<u>Source</u>	<u>Interest Rate 1</u>
Market Rate (AIC)	(1)	3.911%
Total Interest Payments	(2)	\$ 7,187,373
Subsized Rate (AIC)	(1)	2.8480%
Total Interest Payments	(2)	\$ 5,211,697
Savings:		
Interest Rate		1.0630%
Interest Payments		\$ 1,975,676
Interest Rate Savings/Market Rate		27.180%

Prepared by First Southwest

(1) From page 1 on the attached schedules

(2) From page 5 on the attached schedules

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

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**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**

We have audited the accompanying financial statements of Providence Water Supply Board (Water Supply Board) of the City of Providence, Rhode Island, as of and for the years ended June 30, 2015 and 2014, 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 audit. We conducted our audit 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 respective financial position of the Water Supply Board, as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### **Presentation**

As discussed in Note 1, the financial statements of the Water Supply Board, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-activities of the City of Providence that are attributable to the transactions of the 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, 2015 and 2014, the changes in its financial position, or where applicable, its cash flows for the years ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Change in Method of Accounting for Pensions**

As discussed in Note 9 to the financial statements, the Water Supply Board changed its method for accounting and financial reporting for pensions as a result of the adoption of Governmental Accounting Standards Board (GASB) Statement No.68, *Accounting and Financial Reporting for Pensions* – an Amendment of GASB Statement No. 27 and GASB Statement No.71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As discussed in Note 11 to the financial statements, Management analyzed GASB No. 68 and determined that the beginning net position has been restated by \$41,356,974 to include the net pension liability as of June 30, 2014. Our opinion is not modified with respect to this matter.

### **Prior Period Financial Statements**

As described in Note 11, net position at June 30, 2014 has been restated for the elimination of a prior year liability. Our opinion is not modified with respect to this matter:

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedules of Funding Progress, Funding Status, Changes in Net Pension Liability and Related Ratios, Contributions and Investment Returns, on pages 4-8 and 36-38, respectively, 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 April 1, 2016, 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 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 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.

*Marcum LLP*

Providence, RI  
April 1, 2016

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2015 AND 2014**

---

The management of the 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, 2015 and 2014.

**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 non-operating 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, non-capital 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, 2015 AND 2014**

**Condensed Financial Information (in thousands)**

**Condensed Financial Information**

	2013	2014	2015
TOTAL CURRENT ASSETS	\$ 51,371,246	\$ 50,845,457	\$ 56,860,298
NET PROPERTY, PLANT AND EQUIPMENT	295,298,057	299,812,331	317,261,613
<b>TOTAL ASSETS</b>	<b><u>\$ 346,669,303</u></b>	<b><u>\$ 350,657,788</u></b>	<b><u>\$ 374,121,911</u></b>
TOTAL CURRENT LIABILITIES	\$ 14,108,844	\$ 9,928,198	\$ 13,498,670
TOTAL LONG-TERM LIABILITIES	78,321,740	75,559,279	123,484,780
<b>TOTAL LIABILITIES</b>	<b><u>92,430,584</u></b>	<b><u>85,487,477</u></b>	<b><u>136,983,450</u></b>
DEFERRED INFLOW OF RESOURCES	1,997,014	2,709,308	-
<b>TOTAL DEFERRED INFLOW OF RESOURCES</b>	<b><u>1,997,014</u></b>	<b><u>2,709,308</u></b>	<b><u>-</u></b>
NET POSITION:			
NET INVESTMENT IN CAPITAL ASSETS	217,211,421	225,543,538	239,087,594
RESTRICTED FUND	31,511,583	32,410,386	36,145,168
UNRESTRICTED FUND	3,518,701	4,507,079	(38,094,301) (1)
<b>TOTAL NET POSITION</b>	<b><u>\$ 252,241,705</u></b>	<b><u>\$ 262,461,003</u></b>	<b><u>\$ 237,138,461</u></b>
TOTAL OPERATING REVENUE	\$ 61,069,674	\$ 62,872,231	\$ 69,231,217
TOTAL OPERATING EXPENSES	38,040,000	41,750,117	43,179,067
DEPRECIATION	12,263,983	12,643,922	11,313,363
TOTAL OPERATING EXPENSES INCLUDING DEPRECIATION	50,303,983	54,394,039	54,492,430
OPERATING INCOME	10,765,691	8,478,192	14,738,787
NON OPERATING EXPENSE	(1,593,191)	(1,562,494)	(1,811,838)
CAPITAL GRANTS AND CONTRIBUTIONS	2,099,550	3,303,600	1,098,257
<b>NET POSITION</b>	<b><u>\$ 11,272,049</u></b>	<b><u>\$ 10,219,298</u></b>	<b><u>\$ 14,025,206</u></b>

Note:

(1) The 2015 Unrestricted fund reflects implementation of the GASB No 68 and prior year adjustment. See Footnote #11

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2015 AND 2014**

---

**Financial Highlights**

During the year, the Water Supply Board had operating revenues that exceeded operating expenses by \$14.7 million. This is 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 were \$374.1 million, up \$23.5 million from last year's total assets of \$350.6 million. Current assets, principally cash, increased by \$4.9 million, and net plant increased by \$17 million.

The Water Supply Board's net position totaled \$237.1 million at June 30, 2015, a decrease of \$25.3 million from June 30, 2014. The decrease is the result of recording the net pension liability in the amount of \$41.3 million to reflect implementation of GASB Statement No.68. Also, reflected in the change to our net position is net operating income of \$14.7 million, net non-operating expenses of \$1.8 million, capital contributions of \$1.1 million, and a prior period adjustment of \$2 million.

At June 30, 2014, the Water Supply Board's net position totaled \$ 262.4 million. This net position was restated as of July 1, 2014 to \$221.1 million reflecting the implementation of GASB Statement No. 68. Total assets were \$351 million at June 30, 2014, an increase of \$4 million from the prior year's total assets of \$347 million.

The Water Supply Board's total operating revenues were \$69.5 million for fiscal year 2015, an increase of \$6.6 million over prior year's revenues of \$62.9 million. Total operating expenses of the water system amounted to \$54.8 million, which is slight increase over the prior year's amount of \$54.4 million. The increase in revenue in 2015 was attributable to the increase in rates authorized by the RI Public Utilities Commission (PUC) in December 2013. Fiscal year 2015 represents the first full fiscal year which reflects that increase in rates. Fiscal year 2015 non-operating revenue, principally interest, amounted to \$324,754, and non-operating expense of \$2.1 million was principally interest on long-term debt. Capital grants and contributions in fiscal year 2015 amounted to \$1.1 million.

The Water Supply Board's total operating revenues were \$62.9 for fiscal year 2014, an increase of \$1.8 million over prior year's revenues of \$61.1 million. The total operating expenses of the water system were \$54.4 million in fiscal year 2014. This resulted in a net operating income of \$8.5 million. Fiscal year 2014 non-operating revenue, principally interest, amounted to \$314,637, and non-operating expense of \$1.9 million was principally interest on long-term debt. Capital grants and contributions in fiscal year 2014 amounted to \$3.3 million. This resulted in an increase in net position of \$10.2 million in fiscal year 2014, and a reported net position of \$262.5 million at June 30, 2014. This net position was restated as of July 1, 2014 to \$223 million reflecting the implementation of GASB Statement No. 68 and a prior period adjustment.

The increase in revenue in fiscal year 2014 as compared to fiscal year 2013 was attributable to an approved increase in rates authorized by the RI Public Utilities Commission across all classes of the Water Supply Board customers effective December 2013.

**Capital Assets and Debt Administration**

**Capital Assets:**

At June 30, 2015, the Water Supply Board had \$317.3 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 \$17.4 million, or 5.8%, over the prior year.

At June 30, 2014, the Water Supply Board had \$299.8 million invested in various capital assets. This amount represented a net increase of \$4.5 million, or 1.5%, over the previous year.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2015 AND 2014**

---

**Capital Assets and Debt Administration (Continued)**

**Major project expenditures in fiscal year 2015 included (in millions):**

♦	Replace and Upgrade water mains	\$ 14.40
♦	Replace Sand Filters	\$ 5.60
♦	Plant influent and aerator rehabilitation	\$ 3.30
♦	Sludge handling/disposal	\$ 1.00
♦	Aerated, settled and filter influent conduits	\$ 0.66
♦	Various Distribution System Improvements	\$ 0.56
♦	Install Transmission Mains (W. Cranston)	\$ 0.50
♦	Treatment Process Studies	\$ 0.48
♦	Replace Fire Hydrants	\$ 0.48
♦	Unidirectional Flushing (UDF) Program Development	\$ 0.47
♦	90" Influent Conduit –Inspection	\$ 0.44
♦	Replace Lead Services	\$ 0.37
♦	Administration Building Site Design/Land Acquisition	\$ 0.37
♦	Replace Distribution Valve	\$ 0.32
♦	Aqueduct Reservoir –Replace the 60" Valve	\$ 0.31

The Water Supply Board's fiscal year 2015 capital budget included project expenditures of \$27.1 million for infrastructure and capital projects. The major projects were: water main replacements and upgrades, treatment plant filter replacements, plant influent and aerator upgrades, sludge removal and disposal, source water improvements, aerated settled and filter conduits, various distribution system improvements and installing transmission mains in Western Cranston. The majority of infrastructure projects are financed on a pay-as-you-go, cash basis from rate revenues. Some projects were funded from bond proceeds issued in fiscal year 2015. New capital additions, that will benefit ratepayers for many years, are generally funded with long-term debt financing.

**Debt**

At June 30, 2015, the Water Supply Board had \$78.2 million in bonds and notes outstanding versus \$74.3 million in the previous year. This represented an increase of \$3.9 million or 5%. A new \$8.0 million bond was issued in 2015 to fund various water main improvements.

At June 30, 2014, the Water Supply Board had \$74.3 million in bonds and notes outstanding versus \$78 million in the previous year. This represented a decrease of \$3.7 million, or 5%. No new debt was issued in 2014.

**Subsequent Events:**

The Water Supply Board sought and received approval from the RI Division of Public Utilities (the Division) to borrow \$30 million from the RI Infrastructure Bank to finance the purchase and renovation of a new Central Operating Facility (COF). The Division's approval for this borrowing was the basis of rate relief authorized by the PUC that will generate additional revenue of \$2.1 million per year to fund the debt service associated with this borrowing.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2015 AND 2014**

---

**Subsequent Events (continued):**

On December 17, 2015, the Water Supply Board entered into a bond purchase agreement with the RI Infrastructure Bank to obtain the \$30 million in bond proceeds to purchase and renovate its new Central Operating Facility located at 125 DuPont Drive, Providence Rhode Island. The new facility will allow the Water Supply Board to consolidate its two administrative locations into one facility. The Water Supply Board will continue its treatment operation at its plant in Scituate. The new facility will go through extensive renovations over the next 15 months with plans to occupy the facility in the spring of 2017.

On December 28, 2015, the Water Supply Board purchased the aforementioned building at 125 Dupont Drive.

**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 January 1, 2011 to June 30, 2015. A new contract was in negotiations at fiscal year-end and subsequently approved by the union and City. The new contract is effective for the period of July 1, 2015 through June 30, 2018.

**Contacting The Water Supply Board's Financial Management**

This financial report is designed to provide our customers, investors and creditors with a general overview of the Water Supply Board's finances and to illustrate the 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 Water Supply Board, 552 Academy Avenue, Providence, RI 02908.

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

**STATEMENTS OF NET POSITION**

**JUNE 30, 2015 AND 2014**

	2015	2014
<b>Assets</b>		
<b>Current Unrestricted Assets</b>		
Cash and cash equivalents (Note 3)	\$ 4,796,887	\$ 5,935,190
Accounts receivable, net of allowance for uncollectible accounts of \$1,247,078 in 2015 and \$1,516,982 in 2014	6,332,160	6,620,177
Accounts receivable - unbilled	3,441,854	3,258,843
Inventory	826,530	879,812
Other assets	300,455	31,703
<b>Total Current Unrestricted Assets</b>	<u>15,697,886</u>	<u>16,725,725</u>
<b>Current Restricted Assets</b>		
Cash and cash equivalents (Note 3)	33,354,104	27,147,017
Investments (Note 3)	6,634,910	6,960,501
Accounts receivable	16,959	12,214
<b>Total Current Restricted Assets</b>	<u>40,005,973</u>	<u>34,119,732</u>
<b>Total Current Assets</b>	<u>55,703,859</u>	<u>50,845,457</u>
<b>Capital Assets (Note 4)</b>		
Land	22,613,760	21,958,397
Building and improvements	84,679,611	79,135,020
Improvements other than buildings	311,430,903	297,055,247
Machinery and equipment	31,586,324	30,877,466
Scituate Reservoir Project	18,681,695	18,681,695
Construction in progress	55,087,340	47,609,161
	<u>524,079,633</u>	<u>495,316,986</u>
Less accumulated depreciation and amortization	206,818,020	195,504,655
<b>Total Capital Assets, Net</b>	<u>317,261,613</u>	<u>299,812,331</u>
<b>Deferred Outflows of Resources</b>		
Deferred outflows of resources (Note 9)	<u>1,156,442</u>	<u>--</u>
<b>Total Assets</b>	<u>374,121,914</u>	<u>350,657,788</u>

*The accompanying notes are an integral part of these financial statements.*

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

**STATEMENTS OF NET POSITION (CONTINUED)**

**JUNE 30, 2015 AND 2014**

	2015	2014
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt (Note 5)	4,628,807	4,094,775
Due to City of Providence General Fund (Note 6)	1,394,422	1,377,649
Accounts payable	1,231,083	410,797
Accrued expenses	2,383,551	2,335,631
	<u>9,637,863</u>	<u>8,218,852</u>
<b>Amounts to be Paid from Current Restricted Assets (Note 2)</b>		
Due to Water Resources Board	400,400	268,312
Accounts payable	3,460,405	1,441,034
	<u>3,860,805</u>	<u>1,709,346</u>
<b>Total Current Liabilities</b>	<u>13,498,668</u>	<u>9,928,198</u>
<b>Non-Current Liabilities</b>		
General revenue bonds (Note 5)	73,545,212	70,174,018
Net pension liability (Note 9)	43,268,573	--
Other post employment benefits (Note 10)	6,671,000	5,385,261
<b>Total Non-Current Liabilities</b>	<u>123,484,785</u>	<u>75,559,279</u>
<b>Total Liabilities</b>	<u>136,983,453</u>	<u>85,487,477</u>
<b>Deferred Inflows of Resources</b>		
Unavailable revenues from impact fees (Note 9)	--	2,709,308
<b>Net Position</b>		
Net investment in capital assets	239,087,594	225,543,538
Restricted	36,145,168	32,410,386
Unrestricted	<u>(38,094,301)</u>	<u>4,507,079</u>
<b>Total Net Position</b>	<u>\$ 237,138,461</u>	<u>\$ 262,461,003</u>

*The accompanying notes are an integral part of these financial statements.*

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

**STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014
<b>Operating Revenues</b>		
Charges for services:		
Water sales (Note 1):		
General customers	\$ 46,859,419	\$ 41,728,477
Other local water suppliers	17,732,754	16,852,460
Fire protection services	2,308,161	2,083,816
Maintenance charges and other revenue	2,330,883	2,207,478
<b>Total Operating Revenues</b>	<u>69,231,217</u>	<u>62,872,231</u>
<b>Operating Expenses</b>		
Source of supply	2,654,218	2,678,278
Pumping operations	724,018	638,487
Water treatment	8,227,250	8,643,838
Transmission and distribution	5,086,495	5,207,017
Charge for services provided by other City departments (Note 6)	839,167	839,167
Customer accounts and service	3,593,293	3,340,891
Administrative and general	15,031,845	13,480,801
Depreciation	11,313,363	12,643,922
Property taxes - other local governments	7,022,781	6,921,638
<b>Total Operating Expenses</b>	<u>54,492,430</u>	<u>54,394,039</u>
<b>Net Operating Income</b>	<u>14,738,787</u>	<u>8,478,192</u>
<b>Non-operating Revenues (Expenses)</b>		
Interest income	324,754	314,637
Interest expense and other	(2,136,592)	(1,877,131)
<b>Net Non-operating Expenses</b>	<u>(1,811,838)</u>	<u>(1,562,494)</u>
<b>Capital Grants and Contributions</b>	<u>1,098,257</u>	<u>3,303,600</u>
<b>Change in Net Position</b>	14,025,206	10,219,298
<b>Net Position - Beginning of Year (as Restated) (Note 11)</b>	<u>223,113,255</u>	<u>252,241,705</u>
<b>Net Position - End of Year</b>	<u><u>\$ 237,138,461</u></u>	<u><u>\$ 262,461,003</u></u>

*The accompanying notes are an integral part of these 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, 2015 AND 2014**

	2015	2014
<b>Cash Flows From Operating Activities</b>		
Cash received from customers	\$ 69,062,726	\$ 65,904,184
Cash paid to vendors	(25,137,957)	(28,264,414)
Cash paid to employees	(13,610,390)	(12,714,891)
<b>Net Cash Provided by Operating Activities</b>	<u>30,314,379</u>	<u>24,924,879</u>
<b>Cash Flows From Non-Capital and Related Financing Activities</b>		
Receipts from or (payments to) other funds	16,773	(418,193)
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>	<u>16,773</u>	<u>(418,193)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Interest and issuance costs paid on debt	(2,136,592)	(1,877,131)
Proceeds from line of credit	--	(3,000,000)
Repayment of long-term debt	(4,094,774)	(3,817,843)
Proceeds from long-term debt	8,000,000	--
Capital grants	1,098,257	3,303,600
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>	<u>2,866,891</u>	<u>(5,391,374)</u>
<b>Cash Flows From Investing Activities</b>		
Acquisition and construction of capital assets	(28,779,604)	(17,158,196)
Purchase of investment securities	(500,409)	(350,000)
Redemption of investment securities	826,000	--
Investment income (loss)	324,754	314,637
<b>Net Cash Used in Investing Activities</b>	<u>(28,129,259)</u>	<u>(17,193,559)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	5,068,784	1,921,753
<b>Cash and Cash Equivalents - Beginning</b>	<u>33,082,207</u>	<u>31,160,454</u>
<b>Cash and Cash Equivalents - Ending</b>	<u>\$ 38,150,991</u>	<u>\$ 33,082,207</u>
Unrestricted Cash and Cash Equivalents	\$ 4,796,887	\$ 5,935,190
Restricted Cash and Cash Equivalents	<u>33,354,104</u>	<u>27,147,017</u>
	<u>\$ 38,150,991</u>	<u>\$ 33,082,207</u>
<b>Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:</b>		
Net operating income	\$ 14,738,787	\$ 8,478,192
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	11,313,363	12,643,922
Change in allowance for doubtful accounts	(269,904)	51,556
Pension expense	755,157	--
Changes in assets and liabilities:		
Accounts receivable	370,165	3,012,100
Inventories	53,282	(234,411)
Other assets	(268,752)	(31,703)
Accounts payable and accrued expenses	4,305,404	292,929
Unearned revenue	(683,123)	712,294
<b>Net cash provided by operating activities</b>	<u>\$ 30,314,379</u>	<u>\$ 24,924,879</u>

*The accompanying notes are an integral part of these financial statements.*



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

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

***REPORTING ENTITY***

The 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.

**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").

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

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***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.

***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 market place.

***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.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***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 fair 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.

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; 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 2015, the \$2,026,185 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, Rhode Island. 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 non-operating. 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 non-operating or capital contributions.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***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.

***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.

***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.

***DEFERRED OUTFLOWS/INFLOWS OF RESOURCES***

In addition to assets, the statement of net position can report deferred outflows of resources. Deferred outflow of resources represents a consumption of net position, that apply to a future period which will not be recognized as an outflow of resources (expense) until that later date. At June 30, 2015 the Water Supply Board reports deferred outflows related to pension in the statement 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 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 plan (active employees and inactive employees).

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

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***DEFERRED OUTFLOWS/INFLOWS OF RESOURCES (CONTINUED)***

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. A deferred inflow 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 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 plan (active employees and inactive employees).

**NOTE 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:

- 1) 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;
- 2) 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
- 3) 10% 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**  
**(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**NOTE 3 - CASH AND INVESTMENTS**

The following is a summary of cash and investments:

	Fair Value
Cash and cash equivalents	\$ 4,796,887
Restricted cash and cash equivalents	33,354,104
Equity Mutual Funds	<u>6,634,910</u>
Total	<u>\$ 44,785,901</u>

Responsibility for custodial credit risk of deposits, investment risk, interest rate risk and concentration of investments rests with the City. 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 of \$38,150,991, \$250,000 is covered by Federal Deposit Insurance Corporation (FDIC) insurance and \$4,347,156 is uncollateralized.

**INTEREST RATE RISK**

This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the exposure of the entity's debt type investments to this risk using the segmented time distribution model is as follows:

Type of Investment	Fair Value	Investment Maturities (in Years)				
		Less Than 1 Year	1-5 Years	6-10 Years	Over 10 Years	No maturity
Equity Mutual Funds	\$ 6,634,910	\$ -	\$ -	\$ -	\$ -	\$ 6,634,910
<b>TOTAL</b>	<u>\$ 6,634,910</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,634,910</u>

**CREDIT RISK**

Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating of a nationally recognized rating organization. Mutual Funds holding U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

***FAIR VALUE MEASUREMENT OF INVESTMENTS***

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

**Level 1:** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

**Level 2:** Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3:** Inputs to the valuation methodology are unobservable and significant to the fair value measurements.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014.

*Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Water Supply Board are open-ended mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Water Supply Board are deemed to be actively traded on a public exchange. All mutual funds are considered Level 1 investments at December 31, 2015 and 2014.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**NOTE 4 - CAPITAL ASSETS**

The following is a summary of the activity in capital assets as of June 30, 2015:

	Balance June 30, 2014	Additions	Disposals / Reclasses	Balance June 30, 2015
Capital Assets Not Being Depreciated:				
Land	\$ 21,958,397	\$ 655,363	\$ --	\$ 22,613,760
Scituate Reservoir Project	18,681,695	--	--	18,681,695
Construction in progress	47,609,161	24,438,961	16,960,782	55,087,340
Total Capital Assets Not Being Depreciated	<u>88,249,253</u>	<u>25,094,324</u>	<u>16,960,782</u>	<u>96,382,795</u>
Capital Assets Being Depreciated:				
Buildings and improvements	79,135,020	5,544,591	--	84,679,611
Improvements other than buildings	297,055,247	14,375,656	--	311,430,903
Machinery and equipment	30,877,466	708,858	--	31,586,324
	<u>407,067,733</u>	<u>20,629,105</u>	<u>--</u>	<u>427,696,838</u>
Less accumulated depreciation for:				
Buildings and improvements	55,267,185	6,207,747	--	61,474,932
Improvements other than buildings	113,064,008	4,367,715	--	117,431,723
Machinery and equipment	27,173,462	737,903	--	27,911,365
	<u>195,504,655</u>	<u>11,313,365</u>	<u>--</u>	<u>206,818,020</u>
Total Capital Assets Being Depreciated, Net	<u>211,563,078</u>	<u>9,315,740</u>	<u>--</u>	<u>220,878,818</u>
Total Capital Assets, Net	<u>\$ 299,812,331</u>	<u>\$ 34,410,064</u>	<u>\$ 16,960,782</u>	<u>\$ 317,261,613</u>



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

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

The following is a summary of the activity in capital assets as of June 30, 2014:

	Balance June 30, 2013	Additions	Disposals / Reclasses	Balance June 30, 2014
Capital Assets Not Being Depreciated:				
Land	\$ 21,918,296	\$ 40,101	\$ --	\$ 21,958,397
Scituate Reservoir Project	18,681,695	--	--	18,681,695
Construction in progress	61,726,417	15,173,778	29,291,034	47,609,161
Total Capital Assets Not Being Depreciated	<u>102,326,408</u>	<u>15,213,879</u>	<u>29,291,034</u>	<u>88,249,253</u>
Capital Assets Being Depreciated:				
Buildings and improvements	74,388,265	4,819,992	73,237	79,135,020
Improvements other than buildings	270,994,006	26,061,241	--	297,055,247
Machinery and equipment	30,450,111	427,355	--	30,877,466
Total Capital Assets Being Depreciated	<u>375,832,382</u>	<u>31,308,588</u>	<u>73,237</u>	<u>407,067,733</u>
Less Accumulated Depreciation for:				
Buildings and improvements	48,420,614	6,846,571	--	55,267,185
Improvements other than buildings	108,384,312	4,679,696	--	113,064,008
Machinery and equipment	26,055,807	1,117,655	--	27,173,462
	<u>182,860,733</u>	<u>12,643,922</u>	<u>--</u>	<u>195,504,655</u>
Total Capital Assets Being Depreciated, Net	<u>192,971,649</u>	<u>18,664,666</u>	<u>73,237</u>	<u>211,563,078</u>
Total Capital Assets, Net	<u>\$ 295,298,057</u>	<u>\$ 33,878,545</u>	<u>\$ 29,364,271</u>	<u>\$ 299,812,331</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**NOTE 5 - LONG-TERM DEBT**

Long-term debt activity for the years ended June 30, 2015 and 2014 were as follows:

	2015				
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bonds Payable:					
Revenue bonds	\$ 74,268,793	\$ 8,000,000	\$ (4,094,774)	\$ 78,174,019	\$ 4,628,807
Total Bonds	74,268,793	8,000,000	(4,094,774)	78,174,019	4,628,807
Total Long-Term Debt	<u>\$ 74,268,793</u>	<u>\$ 8,000,000</u>	<u>\$ (4,094,774)</u>	<u>\$ 78,174,019</u>	<u>\$ 4,628,807</u>
	2014				
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bonds Payable:					
Revenue bonds	\$ 78,086,636	\$ --	\$ (3,817,843)	\$ 74,268,793	\$ 4,094,775
Total Bonds	78,086,636	--	(3,817,843)	74,268,793	4,094,775
Total Long-Term Debt	<u>\$ 78,086,636</u>	<u>\$ --</u>	<u>\$ (3,817,843)</u>	<u>\$ 74,268,793</u>	<u>\$ 4,094,775</u>

**PROVIDENCE WATER SUPPLY BOARD**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

The following is a summary of bonds and notes outstanding at June 30, 2015 and 2014:

Description	June 30, 2015	
	Interest Rate	Balance
Revenue bonds:		
Safe Drinking Water Bonds (CWFA FY2002)	3.61%	\$ 1,061,245
Scituate Reservoir Project (PPBA FY 2011)	5.40%	504,774
Safe Drinking Water Bonds (CWFA FY2005)	2.22%	--
Safe Drinking Water Bonds (CWFA FY2008)	2.85%	28,181,000
Safe Drinking Water Bonds (CWFA FY2010)	.0410% to 3.14%	8,660,000
Safe Clean Water Bonds (CWFA FY2012)	.072% to 3.26%	2,748,000
Safe Clean Water Bonds (CWFA FY2013)	.019% - 2.53%	4,021,000
Safe Drinking Water Bonds (CWFA FY2013)	.022% - 2.63%	24,998,000
Safe Drinking Water Bonds (CWFA FY2013)	.022% - 3.01%	8,000,000
		<u>\$ 78,174,019</u>

Description	June 30, 2014	
	Interest Rate	Balance
Revenue bonds:		
Safe Drinking Water Bonds (CWFA FY2002)	3.61%	\$ 1,193,199
Scituate Reservoir Project (PPBA FY 2011)	5.40%	635,594
Safe Drinking Water Bonds (CWFA FY2005)	2.22%	915,000
Safe Drinking Water Bonds (CWFA FY2008)	2.85%	29,617,000
Safe Drinking Water Bonds (CWFA FY2010)	.0410% to 3.14%	9,836,000
Safe Clean Water Bonds (CWFA FY2012)	.072% to 3.26%	2,874,000
Safe Clean Water Bonds (CWFA FY2013)	.019% - 2.53%	4,199,000
Safe Drinking Water Bonds (CWFA FY2013)	.022% - 2.63%	24,999,000
		<u>\$ 74,268,793</u>

**PROVIDENCE WATER SUPPLY BOARD**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

Scheduled principal maturities of long-term debt are as follows:

Year ending June 30:	ARRA Principal			
	Principal	Forgiveness	Interest and Fees	Total
2016	\$ 4,628,807	\$ (389,485)	\$ 2,209,396	\$ 6,448,718
2017	3,891,845	(203,506)	2,169,611	5,857,950
2018	3,978,016	(207,283)	2,087,165	5,857,898
2019	3,992,105	(211,265)	1,997,940	5,778,780
2020	5,114,504	(215,814)	1,907,132	6,805,822
2021-2025	20,120,492	(1,163,410)	7,741,578	26,698,660
2026-2030	24,344,000	(1,344,827)	4,503,746	27,502,919
2031-2035	12,104,250	(870,335)	1,737,203	12,971,118
	<u>\$ 78,174,019</u>	<u>\$ (4,605,925)</u>	<u>\$ 24,353,771</u>	<u>\$ 97,921,865</u>

**NOTE 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, 2015 and 2014, respectively. 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, 2015 and 2014 totaled \$1,394,423 and \$1,377,649, respectively.

**NOTE 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, 2015 and 2014 was \$0.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**NOTE 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.

***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 January 1, 2011 to June 30, 2015. A new union contract has been negotiated and agreed to by both parties and is effective for the period of July 1, 2015 through June 30, 2018.

***LEAD SERVICE REPLACEMENT PROGRAM***

The Environmental Protection Agency (EPA) Lead and Copper Rule (the "Rule") require that systems monitor drinking water at the customer tap. In accordance with the Rule, if after corrosion control optimization is implemented, lead concentrations exceed an action level of 15 ppb in more than 10% of customer taps sampled, the system is required to replace lead service lines under its ownership. The regulations require that the utility must replace annually 7% of the total amount of lead services in the system. In accordance with EPA requirements, the Rhode Island Department of Health (RIDOH) found that the Water Supply Board exceeded the lead action level on September 30, 2006 (the date of conclusion of that monitoring period) and was required to begin the annual replacement of 7% of its 25,600 lead services. Because of lead-time in gearing up for an undertaking of this magnitude, RIDOH and the Water Supply Board agreed to a compliance schedule that fulfilled the intent of the regulation whereby 14% of the lead services were to be replaced over the two-year period ending September 30, 2008 and 7% annually thereafter.

By September of 2010, the Water Supply Board exceeded the lead service replacement requirement by over 2,200 services and as a result of being approximately one year ahead of the regulatory required pace, we were informed by RIDOH that the mandated replacements of lead service could be suspended until October 2011.

**PROVIDENCE WATER SUPPLY BOARD**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

***LEAD SERVICE REPLACEMENT PROGRAM (CONTINUED)***

During this period, various concerns were raised about the effectiveness of partial lead service replacements, the persistence of lead levels in the water, and the difficulty of finding a proven solution for reducing the levels. In June 2012, the RIDOH in concert with the EPA, agreed to enter into a consent agreement with the Water Supply Board which granted a stay of the lead service replacement requirement for construction season 2012. As part of the agreement, RIDOH and the EPA required that the Water Supply Board convene a panel of national water quality experts, to include regulators, water professionals, and members of academia, to recommend studies and / or treatment modifications with the objective of reducing lead levels in the water. In 2013 the Water Supply Board was granted a stay of the lead services replacement requirement for the 2013 construction season.

In April 2014, RIDOH granted the Water Supply Board a stay of the lead service replacement requirement for the 2014 construction season. By consent order Providence is required to:

1. Continue with the consultation with its expert panel to evaluate corrosion control treatment in the system.
2. Conduct studies to examine alternative treatment schemes for optimization of corrosion control.
3. Continue a unidirectional flushing program.
4. Continue to rehabilitate and replace unlined cast iron mains that are usually found to be problematic in terms of both water quality and delivery capacity.

Even though the lead service replacement program is temporarily suspended, lead services are still replaced in conjunction with the water main replacement program. Lead services are also replaced on an ongoing basis where customers are voluntarily replacing their private side lead services. Lead services continue to be replaced in areas of local and state road resurfacing projects, and on projects initiated by private or outside entities. PW's own crews replace lead services which are found to be leaking. The replacement work is subject to all of the EPA regulatory notification, testing, and reporting requirements.

**PROVIDENCE WATER SUPPLY BOARD**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

***LEAD SERVICE REPLACEMENT PROGRAM (CONTINUED)***

Since inception of the reporting of the IFR program and the lead service replacement program to the RIPUC (July 1, 1996), The Water Supply Board has replaced 16,221 lead services to the end of fiscal year 2015 (June 30, 2015) at a cost of \$55,614,291.

**NOTE 9 - DEFINED BENEFIT PENSION PLANS**

The City of Providence has adopted GASB Statement No. 68 Accounting and Financial Reporting for Pensions. These changes enhance the Plan's accounting and disclosure for the pension and expand the Required Supplemental Information (RSI) data with new schedules. These were issued to improve the financial reporting by state and local government pension plans. The following provides information required to be disclosed under GASB Statement No. 68.

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.

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.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)**

Membership of the ERS plan for the City of Providence consisted of the following at June 30, 2015, the date of the latest actuarial valuation:

Inactive plan members or beneficiaries currently receiving benefit	3,109
Inactive employees entitled to but not yet receiving benefits	428
Active employees	<u>2,986</u>
 Total	 <u><u>6,523</u></u>

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 following was the asset allocation as of June 30, 2015:

Asset Class	Target Allocation
Domestic equity	79%
Core fixed income	5%
High yield fixed income	13%
Short-term governmental money market	<u>3%</u>
 Total	 <u><u>100%</u></u>



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

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)**

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 Percent
Salary increases	3.5 Per year, before reflecting increases due to longevity
Investment rate of return	8.25 Percent, net of pension plan investment expense, including inflation

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

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)**

For the year ended June 30, 2015 the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 5.56 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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, 2015 are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Weighted Real Rate of Return
Domestic equity	79%	6.23%	4.92%
Core fixed income	5%	1.56%	0.08%
High yield fixed income	13%	3.89%	0.51%
Short-term governmental money market	3%	1.71%	5.00%
Total	<u>100%</u>		5.56%

**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 years ended June 30, 2015, 2014 and 2013 were \$3,212,354, \$2,945,209, and \$2,792,964, respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)**

***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, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The components of the net pension liability of the Retirement System for the Water Supply Board were as follows:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Total pension liability	\$ 60,131,939	\$ 58,311,217
Plan fiduciary net position	\$ 16,863,366	\$ 16,954,243
Board's net pension liability	\$ 43,268,573	\$ 41,356,974
Plan fiduciary net position as a percentage of the total pension liability	28.04%	29.08%

**PROVIDENCE WATER SUPPLY BOARD**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)**

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

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
<b>Balance at 6/30/14</b>	<u>\$58,311,217</u>	<u>\$16,954,243</u>	<u>\$41,356,974</u>
<b>Changes for the year:</b>			
Service Cost	854,182	--	854,182
Interest	5,509,989	--	5,509,989
Differences between expected and actual experience	79,253	--	79,253
Changes in benefit terms	--	--	--
Changes in assumptions	40,391	--	40,391
Contributions - employer	--	3,212,354	(3,212,354)
Contributions - employee	--	1,037,505	(1,037,505)
Net investment income	--	331,724	(331,724)
Benefit payments, including refunds	(4,663,093)	(4,663,093)	--
Administration expenses	--	(9,367)	9,367
Other changes	--	--	--
<b>Net Changes</b>	<u>1,820,722</u>	<u>(90,877)</u>	<u>1,911,599</u>
<b>Balance at 6/30/15</b>	<u>\$60,131,939</u>	<u>\$16,863,366</u>	<u>\$43,268,573</u>

Additional information as of the latest actuarial valuation follows:

Valuation Date	1-Jul-14
Actuarial cost method	Individual entry age method
Amortization cost method	Approximate level percent of payroll-open
Remaining amortization period	26 years
Asset valuation method	5-year smoothed market value
	Actuarial assumptions:
Investment rate of return	8.25%
Inflation rate	3.5%
Projected salary increases	3.5% per year before reflecting increases due to longevity compensation
Cost of living adjustments	No COLA for next 8 years, 3% thereafter

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

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)**

Mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with no assumed pre-retirement mortality or turnover.

Mortality rates for healthy retirees were based on RP-2000 Combined Healthy Mortality Table projected 21 years with Scale AA from 2000 for Class A employees and RP-2000 Combined Healthy Blue Collar Mortality Table projected 21 years with Scale AA from 2000 for Class B employees. Disabled retiree mortality rates were based on RP-2000 Combined Healthy Mortality Table set forward 3 years.

*Discount Rate:* The discount rate used to measure the total pension liability was 8.25%. 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 8.25%, 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 (7.25%) or 1-percentage-point higher (9.25%) than the current rate:

	<b>1% Decrease (7.25%)</b>	<b>Discount (8.25%)</b>	<b>1% Increase (9.25%)</b>
<b>Net pension liability</b>	<b>\$ 49,571,509</b>	<b>\$ 43,268,573</b>	<b>\$37,941,170</b>

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

For the year ended June 30, 2015, the Water Supply Board recognized pension expense of \$3,967,510. At June 30, 2015, the Water Supply Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**PROVIDENCE WATER SUPPLY BOARD**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 63,403	\$ --
Changes of assumption	32,313	--
Net difference between projected and actual earnings on pension plan investments	<u>1,060,726</u>	<u>--</u>
Total	<u>\$ 1,156,442</u>	<u>\$ --</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2016	\$ 289,110
2017	289,110
2018	289,110
2019	<u>289,112</u>
Total	<u>\$ 1,156,442</u>

**Payable to the Plan**

At June 30, 2015, the Water Supply Board had made full payment of the required pension contribution for the year ended June 30, 2015.

**PROVIDENCE WATER SUPPLY BOARD**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**NOTE 10 - POST EMPLOYMENT BENEFITS**

The Water Supply Board follows GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions".

The Water Supply Board's Post-Retirement Benefits Program of the City of Providence (the "Program") is a defined-benefit, single-employer post-retirement health and life insurance program. The Program provides lifetime health care and life insurance benefits to retired employees and their spouses when retirement was effective prior to 1996. Disclosures about this program, as a whole, are presented in the City of Providence, Rhode Island's basic financial statements. As of June 30, 2015 and 2014, the City recorded a liability for unpaid post-retirement contributions of \$241,723,000 and \$209,481,098, respectively. Separate actuarial information related to the Water Supply Board employees is not available. Accordingly, only disclosures about the Water Supply Board's participation in the Plan are presented herein.

Fiscal Year	Annual OPEB	Contribution	% of OPEB	Net OPEB
<u>Ending</u>	<u>Cost</u>	<u>Made</u>	<u>Contributed</u>	<u>Obligation</u>
6/30/2015	1,774,000	507,000	28.6%	6,671,000
6/30/2014	1,755,357	437,598	24.9%	5,385,261
6/30/2013	1,305,000	446,423	34.2%	4,052,946

The historical schedules of employer contributions and funding progress for the Program are included in the City of Providence, Rhode Island's basic financial statements.

**NOTE 11 - RESTATEMENT**

The statement of net position has been restated as of June 30, 2014 to reflect the implementation of GASB No. 68 – Accounting and Financial Reporting for Pensions. The implementation of GASB Standard No. 68 resulted in an adjustment of the net pension obligation ending balance at June 30, 2014. The following reflects the effect of implementation of GASB No.68. Additionally, it was determined that impact fees collected from the City of Cranston for development of the Western Cranston service area should have been recognized as revenue in prior periods. These impact fees have been reclassified to beginning net position at June 30, 2014. The following reflects the implementation of GASB No. 68, GASB Statement No. 71 and the adjustment to net position:

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

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**NOTE 11 - RESTATEMENT (CONTINUED)**

Net Position, June 30, 2014 as originally reported	\$ 262,461,003
GASB 68 Implementation	(41,356,974)
Correction of liabilities	<u>2,009,226</u>
Net Position, July 1, 2004 as Restated	<u>\$ 223,113,255</u>

**NOTE 12 - SUBSEQUENT EVENTS**

On December 17, 2015 the Water Supply Board with the City of Providence entered into a Bond Purchase Agreement with the Rhode Island Infrastructure Bank for bonds (Series 2015A) in the amount of \$30 million issued through its Safe Drinking Water State Revolving Fund. The purpose of this funding was to purchase property at 125 Dupont Drive in Providence. This property is to be renovated into a central operating facility which will allow the Water Supply Board to consolidate its operations from two separate facilities located in Providence and Cranston into one location located in the heart of its service area.

On December 28, 2015 the aforementioned property located at 125 Dupont Drive was purchased by the Water Supply Board. Renovations will begin in spring 2016.



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

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CHANGES IN THE  
NET PENSION LIABILITY AND RELATED RATIO**

	2015	2014
<b>Total Pension Liability</b>		
Service cost	\$ 854,182	\$ 893,162
Interest	5,509,989	4,946,549
Changes of benefit plans	--	--
Differences between expected and actual experience	79,253	--
Changes of assumptions	40,391	--
Benefit payments, including refunds of member contributions	<u>(4,663,093)</u>	<u>(4,973,233)</u>
<b>Net Change in Total Pension Liability</b>	1,820,722	866,478
<b>Total Pension Liability - Beginning</b>	<u>58,311,217</u>	<u>57,444,739</u>
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 60,131,939</u>	<u>\$ 58,311,217</u>
<b>Plan Fiduciary Net Position</b>		
Contributions - employer	3,212,354	\$ 2,945,209
Contributions - member	1,037,505	911,508
Net Investment income	331,724	1,210,438
Benefit payments, including refunds of member contributions	(4,663,093)	(4,973,233)
Administrative expense	<u>(9,367)</u>	<u>(71,995)</u>
<b>Not Change in Plan Fiduciary Net Position</b>	(90,877)	21,927
<b>Plan Fiduciary Net Position - Beginning</b>	<u>16,954,243</u>	<u>16,932,316</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 16,863,366</u>	<u>\$ 16,954,243</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	<u>\$ 43,268,573</u>	<u>\$ 41,356,974</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	28.04%	29.08%
<b>Covered Employee Payroll</b>	\$ 12,930,447	\$ 11,900,000
<b>Net Pension Liability as a Percentage of Covered-Employee Payroll</b>	334.63%	347.54%

**Notes:**

*1.) The amounts presented for each fiscal year were determined as of a 6/30 measurement date prior to the fiscal year-end*

*2.) 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)**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CONTRIBUTIONS**

	2015	2014
Actuarially determined contribution	\$ 3,212,354	\$ 2,945,209
Contributions in relation to the actuarially determined contribution	3,212,354	2,945,209
Contribution deficiency (excess)	\$ --	\$ --
Covered-employee payroll	\$ 12,930,447	\$ 11,900,000
Contributions as a percentage of covered-employee payroll	24.84%	24.75%

**Notes to Schedule**

Valuation date: July 1, 2014

Actuarially determined contribution rates are calculated as of July 1, 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
Amortization method	Level dollar for the 1995 deferral liability and increasing 3.5% per year for the remaining unfunded liability.
Remaining amortization period	Market value assets as reported by the Water Board 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	3.5%
Salary increases	3.5% per year before reflecting increases due to longevity compensation.
Investment rate of return	8.25%, net of pension plan investment and administrative expenses, including inflation.
Cost of living adjustments	10-year freeze as of January 1, 2013 and 3% thereafter.
Benefit Changes:	There have been no changes in benefit provisions since GASB 67/68 implementation
Assumption Changes:	The actuarial assumptions used reflect the assumptions proposed in the Experience Investigation for the Five Year Period Ending June 30, 2011 submitted to the Board on April 2, 2012, with the following exception: The retirement rate for Class B participants is 100% at age 60.

**Notes:**

*1.) The amounts presented for each fiscal year were determined as of a 6/30 measurement date prior to the fiscal year-end*

*2.) 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)**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF INVESTMENT RETURNS**

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	2015	2014
Annual money-weighted rate of return, net of investment expense	5.56%	14.04%

**Notes:**

*1.) The amounts presented for each fiscal year were determined as of a 6/30 measurement date prior to the fiscal year-end*

*2.) Schedule is intended to show information for 10 years - additional years will be displayed as they become available.*

**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 of  
**Providence Water Supply Board**

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, 2015, 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 April 1, 2016.

***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) to determine the 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether 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 determination of financial statement amounts. 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*.

### ***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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Marcum LLP*

Providence, RI  
April 1, 2016