

**Research Update:**

# Narragansett Bay Commission, RI 2025 State Revolving Fund Revenue Bonds Assigned 'AA-' Rating

**May 30, 2025**

## Overview

- S&P Global Ratings assigned its 'AA-' rating to the Rhode Island Infrastructure Bank's (RIIB) state revolving fund revenue bonds series 2025A issued on behalf of the Narragansett Bay Commission (NBC). The bonds are designated as Green Bonds.
- Additionally, we affirmed our 'AA-' underlying rating on NBC's outstanding parity debt and Water Infrastructure Finance and Innovation Act (WIFIA) loans.
- The outlook is stable.

## Rationale

### Security

Debt service on all loans and outstanding bonds is payable from the net revenue of the commission. We consider bond provisions credit neutral. The \$100 million RIIB bonds will be used to fund portions of the capital program. The commission will have almost \$1.2 billion in debt and committed loans outstanding after the issuance. It plans to issue another \$274 million before 2031.

### Credit highlights

As NBC continues moving through the significant mostly debt-funded capital program, mainly to deal with combined sewer overflow Phase III A-related projects (estimated completion in April 2028), it remains paramount for rating maintenance that management stay vigilant regarding getting sufficient rates approved by the Rhode Island Public Utilities Commission (PUC) as debt service levels will increase from \$50.1 million in fiscal 2026 to a peak of \$102.5 million in 2046.

The rating reflects our views of NBC's following credit strengths, including:

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- Service area participation in the Providence-Warwick metropolitan area serving 395,000 residents and 7,655 businesses in northeastern Rhode Island, primarily Providence and Pawtucket;
- Rates that we generally view as affordable, monthly-equivalent water and sewer rates are \$53.10 for 800 cubic feet of usage, which is our standard benchmark for monthly consumption, or only 1.01% of median household effective buying income when annualized;
- Operational management practices and policies that we view as good;
- Financial metrics that include all-in debt service coverage of at least 1.3x the past three years and a days' cash equivalent of around 135-209 days' cash over the last four fiscal years; and
- Management practices and policies that we view as strong.

Challenges for the credit remain, as mentioned above:

- The system's high leverage, at a 65.7% debt-to-capitalization ratio at the end of fiscal 2024 and a mostly debt-funded \$511 million capital program through 2031; and
- The successful maintenance of its currently good relationship with Rhode Island PUC to get rate increases approved to meet the rising debt service requirements, with its next rate case scheduled for having new rates in effect in 2026.

## **Environmental, social, and governance**

Environmental risk is also elevated as the system is under a consent agreement, although management has completed the planning and is well into the construction of the Phase III-A projects with expected completion in April 2028. Also, governance risk factors are higher than those of similar sewer systems in that NBC must get rate approval from an outside entity, the PUC. This risk is somewhat mitigated as the commission has had a sound history of obtaining PUC rate approval. We could see social risk increase given the forecast large rate increases needed to keep up with increasing debt service requirements and inflationary pressures on operating expenses.

## **Outlook**

The stable outlook on the underlying rating reflects our expectation that the financial performance should continue in a fashion consistent with historical trends, given a sound history of credit-supportive rate decisions by the PUC.

### **Downside scenario**

Should future rates not generate sufficient revenue to help maintain the consistent financial performance, leading to a material decline in coverage and support the large capital improvement plan, we could lower the rating.

### **Upside scenario**

If NBC's financial performance becomes significantly stronger compared to historical trends and we believe that these trends are sustainable, then the rating could improve. However, given the need for continued PUC support and ongoing debt and capital needs, we believe the likelihood for upward rating movement is probably well beyond the two-year outlook period.

## Narragansett Bay Commission, Rhode Island--Economic and financial data

		Fiscal year-end			
	Most recent	2024	2023	2022	Median (AA-)
Economic data					
MHHEBI of the service area as % of the U.S.	93.0				105.0
Unemployment rate (%)	4.4				3.6
Poverty rate (%)	12.7				11.3
Water rate (6,000 gallons or actual) (\$)	--				37.7
Sewer rate (6,000 gallons or actual) (\$)	60.9				40.8
Annual utility bill as % of MHHEBI	1.2				1.2
Operational management assessment	Good				Good
Financial data					
Total operating revenues (\$000s)		110,296	105,380	103,762	15,647
Total operating expenses less depreciation (\$000s)		51,896	45,932	42,946	11,314
Net revenues available for debt service (\$000s)		62,343	62,835	61,565	--
Debt service (\$000s)		45,842	40,779	41,105	--
S&P Global Ratings-adjusted all-in DSC (x)		1.4	1.5	1.5	2.0
Unrestricted cash (\$000s)		19,135	22,584	24,593	16,768
Days' cash of operating expenses		135	179	209	610
Total on-balance-sheet debt (\$000s)		1,260,697	1,146,618	1,018,817	29,615
Debt-to-capitalization ratio (%)		65.7	64.1	62.2	31.0
Financial management assessment	Good	--	--	--	Good

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

### Ratings List

#### New Issue Ratings

US\$100.0 mil state revolving fd rev bnds (Narragansett Bay Commission) ser 2025A due 10/01/2054

Long Term Rating AA-/Stable

#### Ratings Affirmed

#### Water & Sewer

Narragansett Bay Comm, RI Sewer System AA-/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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