

## Narragansett Bay Commission, RI -Wastewater Revenue

**Issuer:** Narragansett Bay Commission, RI

Affirmed	Ratings	Outlook
Combined Sewer Overflow Phase III Facilities WIFIA Loan	AA	Stable
Bucklin Point Resiliency Improvements WIFIA Loan	AA	Stable

### Methodology

- [U.S. Municipal Retail Utility Revenue Bond Rating Methodology](#)
- [ESG Global Rating Methodology](#)

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**Rating Summary:** The long-term ratings continue to reflect the Narragansett Bay Commission's (NBC's or the "Commission's") sound financial performance supported by timely and adequate sewer rate increases, diverse customer base with competitive sewer rates, and solid security provisions for the WIFIA loans. For the past five years debt service coverage has been solid and in excess of the 1.25x rate covenant.

Counterbalancing the aforementioned strengths is regulatory oversight of NBC's rate setting by the Rhode Island Public Utility Commission (PUC), and the size and scope of the Commission's largely debt funded capital program through 2041, which is expected to increase annual debt service through the capital program's term. KBRA notes NBC has historically received constructive PUC rate treatment, particularly given the critical and mandated (state and federal) nature of the majority of its capex. At FYE (June 30) 2024, the two Water Infrastructure Finance and Innovation Act (WIFIA) loans rated by KBRA totaled \$470.0 million. These loans, along with a third WIFIA loan (\$55.7 million) issued in August 2022, are on parity with approximately \$242.7 million of wastewater revenue bonds and \$414.9 million in Rhode Island Infrastructure Bank (RIIB) state revolving fund loans as of FYE 2024.

NBC, a public corporation created in 1980 pursuant to state statute, provides wastewater treatment and collection services to the Providence and Pawtucket metropolitan areas. The customer base is largely residential and modestly growing, with 85,825 customer accounts and a population base of roughly 400,000. NBC owns and operates Rhode Island's two largest wastewater treatment facilities, Field's Point and Bucklin Point, as well as a substantial wastewater transmission network, pumping stations and monitoring facilities.

NBC's service territory encompasses nearly 71 miles across ten Rhode Island communities in and around the greater metropolitan Providence area. Providence is the state capital and the largest city in Rhode Island. Demographics of the service area remain adequate, with income levels that are mostly below the state average, reflecting the urban economic base with considerable service-related industries, balanced by a notable presence of the more stable education, government and healthcare sectors. Providence County population growth, as estimated by the US Census, remains solid, with a 10-year compound annual growth rate (CAGR) of 0.67% through 2024, ahead of the state (0.53%) and the nation (0.65%).

The Commission is presently in its third and final phase of a Combined Sewer Overflow (CSO) Abatement Program to comply with a federal mandate and a consent decree with the Rhode Island Department of Environmental Management (RIDEM). Phases I and II were completed in 2008 and 2014, respectively, and incorporated CSO capture, transport and storage systems that feed into the Field's Point Treatment Facility. The Phase III capital program includes four subphases (Phase III A, B, C, and D projects) with an estimated total cost of \$1.4 billion and planned completion in 2041. Of this total, the Phase IIIA projects account for \$877.4 million<sup>1</sup>.

NBC is currently working on the CSO Phase IIIA and IIIB facilities, and the Bucklin Point resiliency improvements. As per the Commission's current 6-year capital plan, which is annually updated, capex is estimated to total \$511.9 million through FY 2031, of which, the Phase IIIA facilities will account for roughly half of the capital expenditures. Phase IIIA capex includes the construction of the Pawtucket Tunnel project, the largest and most complex project in the Phase III program. Positively, progress on the Pawtucket tunnel project and associated tunnel pump station is ahead of schedule and within budget. Additionally, NBC reports significant water quality improvements in the Narragansett Bay to date from Phases I and II, with beach closures reduced by 85% and improved shell-fishing conditions. Further environmental improvements are expected upon completion of Phase IIIA projects in 2027, when up to 95% of the CSO within the Bucklin Point service area will be treated.

<sup>1</sup> Excludes cost incurred prior to FY 2020.

As per the WIFIA loan agreements, the principal repayments will begin in FY 2035, with the CSO Phase III Facilities WIFIA loan scheduled to be fully amortized in FY 2047, and the Bucklin Point WIFIA loan in FY 2060. The loans are structured such that interest is incurred as funds are drawn but payments do not commence until five years after substantial completion. The WIFIA loans' debt service is payable from net system revenues on parity with NBC's outstanding wastewater revenue bonds and RIIB borrowings. There is no debt service reserve fund for the WIFIA loans. In practice, after meeting the Indenture's debt service coverage requirement, excess amounts in the Debt Service Fund's Stabilization Account can be transferred to the Project Fund at fiscal year-end to pay for capital projects and operating capital. Non-system uses require US Environmental Protection Agency<sup>2</sup> approval, per the WIFIA loan agreement.

KBRA anticipates that capital funding will continue to be supported through internally generated funds and timely rate adjustments. As a regulated utility, NBC's sewer rates are set by the State's PUC. NBC proactively informs the PUC of necessary capital projects and rate requirements, and the PUC's history of rate review and approval has been constructive. Additionally, pursuant to a PUC-approved debt service coverage compliance filing mechanism, NBC can seek rate relief solely for debt service and debt service coverage, via an expedited rate relief process supporting capital funding.

For the past five fiscal years, financial performance has been sound with DSC ranging from 1.37x to 1.56x, with fairly regular rate adjustments and manageable debt requirements. Going forward, DSC is projected to approach 1.25x beginning in FY 2026, as debt outstanding rises to a peak of \$1.3 billion by FY 2027, and annual debt service consequently rises through the capex cycle. The increasing debt reflects planned borrowings required to complete the CSO Phase III facilities, the Bucklin Point Resiliency Improvements, and other sewer upgrades through 2031. Prospective sewer rate increases are projected to average roughly 5% per annum over the 6-yr capex period to maintain the 1.25x DSC. NBC's recently implemented a 9.39% across-the-board increase in sewer use rates on July 1, 2025, and plans to submit its next rate request to the PUC in October 2025 for implementation in FY 2027. Favorably, the average residential sewer bill remains competitive and mid-range relative to other sewer systems in the State, totaling \$622 per year for 2025, or 0.8% of the median household income for Providence County<sup>3</sup>.

The Stable Outlook reflects KBRA's expectation that the Commission will continue to manage its large capital plan close to budget, and adjust its rates as forecast to support operations and the ongoing capital program, while satisfying the 1.25x rate covenant. KBRA views the 1.25x DSC as minimally acceptable for the rating level, given the support of the rate covenant requirement, the ability to utilize an expedited regulatory rate review process to ensure compliance with the rate covenant, and the PUC's generally constructive regulatory reviews to date.

### Key Credit Considerations

The rating is affirmed because of the following key credit considerations:

#### Credit Positives

- Favorable history of rate setting, with the ability to use an expedited regulatory rate review process to maintain adequate debt service coverage.
- Largely residential and modestly growing customer base, with competitive wastewater rates.
- Comprehensive long-term financial and capital planning process which is updated on an annual basis.

#### Credit Challenges

- Rate increases are subject to regulatory review by the State's PUC. Positively, NBC has a history of constructive rate reviews by the PUC.
- Higher complexity and implementation risk related to the CSO Phase III projects.
- Leverage, as measured by total debt to net plant, and debt service requirements are rising as NBC funds the large capital program. DSC is projected to approximate the rate covenant over the five-year forecast.

### Rating Sensitivities

▪ Under budget completion of NBC's large capex, with lower debt requirements and financial coverage materially above the projected minimally required debt service coverage.	<b>+</b>
▪ Less favorable rate regulatory environment, with debt service coverage below financial projections.	<b>-</b>

<sup>2</sup> The US EPA administers the WIFIA loan program.

<sup>3</sup> Median household income for Providence County is \$73,977 based upon US Census data for 2024.

Key Ratios			
Narragansett Bay Commission - Wastewater System			
FYE June 30	2022	2023	2024
<b>Sewer Customer Accounts</b>	85,530	85,825	86,227
% Change YoY	-	0.3%	0.5%
Residential Revenues % Sewer Operating Revenues	57.3%	57.1%	56.4%
<b>Population (US Census Data)</b>			
Providence County	657,288	660,615	675,912
Providence County, 10-year CAGR (2014-24)			0.67%
Rhode Island, 10-year CAGR (2014-24)			0.53%
<b>Key Financial Data and Ratios</b>			
Capital Expenditures (\$000s)	112,871	184,396	95,873
Long-Term Debt Outstanding (\$000)	1,016,579	1,144,278	1,183,491
Annual Debt Service (\$000)	41,105	40,779	45,842
Net Revenue Available for Debt Service (\$000s)	63,961	63,088	62,749
Days Cash on Hand	206	175	151
Debt Service Coverage (x)	1.56x	1.55x	1.37x
Long-Term Debt to Net Fixed Assets	78.8%	77.5%	73.6%
Long-Term Debt to Total Capitalization	62.2%	64.0%	64.2%

Source: NBC annual audited financial statements, US Census Data, and KBRA calculations.

## Rating Determinants (RD)

1. Management, Governance, Regulatory Framework	AA+
2. Legal Mechanics and Security Provisions	AA+
3. Service Area and Demand	AA
4. Operations and Capital	AA-
5. Financial Profile and Debt	AA-

For a more detailed discussion of Rating Determinants 1 through 5, and ESG Management, please refer to KBRA's prior reports, the most recent of which is dated, [September 26, 2024](#).

## RD 5: Financial Profile and Debt Update

Figure 1

NBC - Statement of Revenues & Expenses (\$000s)					
	FY2024	FY2023	FY2022	FY2021	FY2020
Operating revenues <sup>(1)</sup>	\$ 110,577	\$ 105,646	\$ 104,033	\$ 104,582	\$ 103,783
Non-operating revenues <sup>(2)</sup>	4,068	3,374	2,874	334	1,150
Total revenues	114,644	109,019	106,907	104,916	104,933
% Change YoY	5.2%	2.0%	1.9%	0.0%	3.9%
Personnel/Professional services	28,066	26,879	25,728	23,194	23,878
Depreciation	22,959	22,629	22,223	17,094	16,612
Operating expenses/supplies	23,830	19,053	17,218	17,228	16,222
Non-operating expenses	20,918	17,678	15,040	14,737	18,063
Total expenses	95,772	86,239	80,209	72,252	74,774
% Change YoY	11.1%	7.5%	11.0%	-3.4%	0.1%
Net Income	18,873	22,780	26,698	32,664	30,159
Capital Contribution	649	2,590	1,000	-	1,998
Change in Net Position <sup>(3)</sup>	15,319	25,941	27,698	32,664	32,157
Total Net Position	659,224	643,905	617,964	590,266	557,602
Total Revenues	114,644	109,019	106,907	104,916	104,933
Operating Expenses (excludes depreciation)	51,895	45,932	42,946	40,422	40,099
Net Revenues available for Debt Service	62,749	63,088	63,961	64,495	64,833
<b>Annual Debt Service</b>	<b>45,842</b>	<b>40,779</b>	<b>41,105</b>	<b>43,382</b>	<b>44,683</b>
<b>Debt Service Coverage <sup>(4)</sup></b>	<b>1.37x</b>	<b>1.55x</b>	<b>1.56x</b>	<b>1.49x</b>	<b>1.45x</b>

<sup>(1)</sup> Operating revenue for FY 2024 reflects most recent sewer rate increase of 6.54% across-the-board, effective Aug. 1, 2023.

<sup>(2)</sup> Nonoperating Revenue reflects variable sewer tie-in fees, interest earnings, grant revenue, and other miscellaneous income.

<sup>(3)</sup> Inclusive of any prior period adjustment.

<sup>(4)</sup> Pursuant to Indenture DSC [Total Revenues less Operating Expenses (excluding Depreciation)/Debt Service].

Source: Narragansett Bay Commission FY2023 Annual Comprehensive Financial Report.

Figure 2

Narragansett Bay Commission Long Term Debt Outstanding (\$000s)					
FYE June 30	2024	2023	2022	2021	2020
RI Infrastructure Bank (RIIB)	\$ 414,915	\$ 371,020	\$ 296,894	\$ 277,382	\$ 311,291
Wastewater Revenue Bonds	242,904	252,951	258,413	262,805	266,072
Wastewater Revenue - WIFIA Loans	525,672	520,307	461,271	459,705	268,711
Total Long-Term Bonds and Loans	\$ 1,183,491	\$ 1,144,278	\$ 1,016,579	\$ 999,892	\$ 846,073

Source: Narragansett Bay Commission FY 2024 ACFR, Supplemental Data.

**Figure 3**

<b>CIP by Major Capital Project</b>		
<b>Project (\$Mils)</b>	<b>Estimated Cost FY 26-FY 31</b>	<b>% Total Cost</b>
CSO Phase III Facilities	\$ 255.8	50.0%
Field Point Resiliency Improvements	105.0	20.5%
Wastewater Treatment Facility Improvements	84.5	16.5%
Bucklin Point Resiliency Improvements	15.2	3.0%
Other CIP	51.4	10.0%
<b>Total CIP</b>	<b>\$ 511.9</b>	<b>100.0%</b>

Source: Narragansett Bay Commission FY2025 Operating Budget.

## Bankruptcy Assessment

KBRA has consulted outside counsel and the following represents our understanding of the relevant material bankruptcy and legal issues related to the WIFIA Loans and the Commission.

### Chapter 9 Eligibility

To be a debtor under the municipal bankruptcy provisions of the U.S. Bankruptcy Code (i.e., Chapter 9), a local governmental entity must, among other things, (i) qualify under the definition of a “municipality” in the Bankruptcy Code, and (ii) be specifically authorized to file a bankruptcy petition by the state in which it is located. The Commission is a public corporation of the State of Rhode Island performing a traditional government function, with a distinct legal existence from the State (and not constituting a department of State government), and therefore, it is a “municipality” as defined under the Bankruptcy Code.

As to authorization, Rhode Island provides for several layers of potential supervision for fiscally challenged cities, towns, and fire districts, which could lead to the appointment of a receiver to act for such fiscally-challenged public entity. Rhode Island law specifically authorizes such a Receiver to file a Chapter 9 petition for the relevant city, town or fire district. It is unclear, however, whether the Commission is subject to these supervisory procedures. Regardless of whether such procedures are applicable to the Commission, Rhode Island could enact specific legislation permitting the Commission to commence a Chapter 9 case in the event it experienced financial distress.

### Treatment of Claims in Bankruptcy

Chapter 9 provides for post-petition recognition of (i) security interests represented by a pledge of specific special tax revenues or of enterprise revenues (referred to as a lien on “special revenues”) and (ii) statutory liens (one imposed by statute) on revenues pledged for government obligations. Such special revenues and statutory liens should both continue to apply to pledged revenues acquired by a local government entity during a Chapter 9 case and survive the conclusion of the Chapter 9 proceeding. However, other consensual pledges and liens arising by indenture, resolution or similar document (except to the extent they cover proceeds of collateral pledged prior to bankruptcy) are generally severed by Section 552 of the Bankruptcy Code as of the petition date.

The WIFIA Loans are secured by the full faith and credit of the Commission and, subject to certain carve-outs, are payable from (i) the Revenues of the Commission (as defined in the Indenture), and (ii) all monies, securities and other amounts in all funds and accounts established by or pursuant to the Indenture except the Operating and Maintenance Fund, the Rebate Fund, the Purchase Fund, if any, and the Unrestricted Fund of the Commission (such revenues, the “Pledged Revenues”).

Because the pledged revenues are generated by the Commission’s wastewater system (the “System”), KBRA understands that the pledged revenues will qualify as “special revenues” as that term is defined in the Bankruptcy Code. There are separate bankruptcy protections for loans that fall within the definitions of “special revenues”. Notably, the decision issued by the First Circuit Court of Appeals in *Puerto Rico Electric Power Authority* (“PREPA”) affirmed the protections afforded to liens on pledged special revenues. Assuming there is no shortfall of funds to make debt service payments, given that the WIFIA Loans are secured by a pledge of special revenues, it is KBRA’s understanding that if the Commission were to file for protection under Chapter 9, such filing(s) should have little to no effect on the payment of the WIFIA Loans during a bankruptcy case.

That stated, there are several additional issues that arise. If the Commission were to become a debtor in a proceeding under Chapter 9 of the Bankruptcy Code, the bankruptcy court could decide that (i) post-bankruptcy revenue bond payments by the Commission are merely optional and not mandatory under the special revenues provisions of the Bankruptcy Code and/or (ii) the automatic stay exception for special revenues in those provisions does not apply (including to possible enforcement action by the Trustee) or is limited to amounts then on hand with the Trustee or the Commission. If the bankruptcy court were to interpret the Bankruptcy Code in that (or a similar) fashion, the parties

to the proceedings may be prohibited for an unpredictable amount of time from taking any action to collect any amount from the Commission, or from enforcing any obligation of the Commission, without the bankruptcy court's permission. However, it is KBRA's understanding that such a ruling would be contrary to historical experience in Chapter 9, and the clear intent of Congress regarding the continued payment of municipal revenue obligations post-bankruptcy, as expressed in the legislative history for the special revenues amendments to Chapter 9 and as interpreted in properly reasoned existing (albeit limited) case precedent under Chapter 9.

Assuming the Pledged Revenues are in fact determined to be "special revenues," the Bankruptcy Code provides that, to keep revenue-generating government assets operating, special revenues can be used to fund necessary operating expenses of the project or system ahead of all other obligations – including bondholder payments. This rule applies regardless of contrary provisions of the transaction documents or if such governing documents do not adequately provide for payment of necessary operating expenses.

In determining necessary operating expenses for the System, a bankruptcy court may not be limited by provisions in the Bond documents or Indenture governing the flow of funds or defining Operation and Maintenance expenses. In addition, while there is no case law from which to make a definitive judgment, it is possible that, in the context of confirming a plan of adjustment in a Chapter 9 case where the plan has not received the requisite consent of the WIFIA Lender, a bankruptcy court may confirm a plan that adjusts the timing of payments on the WIFIA Loans or the interest rate or other terms of the WIFIA Loans, provided that (i) the lenders retain their lien on the special revenues and (ii) the payment stream has a present value equal to the value of the special revenues subject to the lien.

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