

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

SUPPLEMENTAL DIRECT TESTIMONY OF

**THOMAS F. HUESTIS**

ON BEHALF OF  
THE PITTSBURGH WATER  
AND SEWER AUTHORITY

Docket Nos. R-2020-3017951 (Water)  
and R-2020-3017970 (Wastewater)

TOPICS:  
Impact of COVID-19 On Public Finance Market  
Potential Consequences for PWSA

May 15, 2020

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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND POSITION FOR THE RECORD.**

3 A. Thomas F. Huestis. I am a Senior Managing Director and Partner with Public Resources  
4 Advisory Group, Inc. (“PRAG”).

5 **Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS PROCEEDING?**

6 A. Yes, I submitted Direct Testimony on March 6, 2020, which accompanied the rate filing.

7 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT TESTIMONY?**

8 A. The purpose of my Supplemental Direct Testimony is to address the public finance  
9 market due to COVID-19, as well as the short- and long-term consequences that could  
10 impact the Authority if no rate increase is given during and/or after the COVID-19  
11 pandemic.

12 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

13 A. No.

14 **II. IMPACTS OF COVID-19**

15 **Q. HOW HAS THE COVID-19 CRISIS IMPACTED THE PUBLIC FINANCE**  
16 **MARKET?**

17 A. COVID-19 has drastically impacted the global economy and caused enormous volatility  
18 in the municipal bond market. Many borrowers delayed expected bond issues until there  
19 is more of an understanding on the impacts of COVID-19 as borrowing rates have  
20 increased across the entire curve by as much as approximately 207 basis points evidenced  
21 via Municipal Market Data (“MMD”) from March 9, 2020 to April 1, 2020. In turn, the  
22 federal government enacted the passage of the \$2 trillion CARES Act stimulus bill that  
23 provides for the creation of a Federal Reserve facility to make open market purchases of  
24 “State” and “Municipal” debt in order to facilitate a more established and stable market.

1 Fortunately, MMD rates have declined considerably from their highs in late March 2020,  
2 however, the municipal borrowing market remains very volatile, which has resulted in a  
3 substantial reduction in new municipal issuance volume with S&P stating that they  
4 “expect issuances to contract between 3% and 7%.” Unfortunately, municipal  
5 governments have not only faced increased borrowing rates, but issuers have seen  
6 investment rates continue to decrease throughout the COVID-19 pandemic as more  
7 investors flock to secure investment vehicles, such as United States Treasury securities.  
8 The Federal Reserve announce an emergency rate cut on March 15, 2020, lowering  
9 interest rates to near zero after just decreasing rates by 50 basis point just two weeks  
10 prior. As for Treasury rates, the 5-year, 10-year and 30-year rates decreased by  
11 approximately 136, 125 and 103 basis points, respectively, from January 2, 2020 to May  
12 14, 2020. Many municipal governments are also dealing with higher administrative costs  
13 and lower revenue forecasts as a result of COVID-19 as social distancing and job losses,  
14 among others, has created obstacles in generating budgeted and expected revenues. The  
15 supplement testimonies of Jennifer Presutti and Edward Barca address PWSA’s current  
16 projections of potential revenue impacts to PWSA.

17 **Q. CAN PWSA WITHSTAND THE COVID-19 PANDEMIC IN THE SHORT-TERM**  
18 **AND LONG-TERM WITHOUT THE REQUESTED RATE INCREASE?**

19 A. As addressed in my Direct Testimony Statement No. 6, there are several risks that occur  
20 if the PUC does not approve the requested rate increase. These risks are now amplified  
21 with the fall-out from the COVID-19 pandemic.

22 **Short-Term.** If the PUC were not to approve the request revenue increase during the  
23 current COVID-19 pandemic, it would be more likely that the following short-term  
24 effects could occur:

- 1           • The Authority is in greater danger of violating its debt service coverage and  
2           liquidity/cash on hand ratios within the Amended and Restated Indenture, as  
3           well as PWSA's Financial Management Policy.
- 4           • PWSA would most likely have to suspend plans to issue new debt for future  
5           capital projects due to the possibility that the Authority's revenues would not  
6           adequately cover the costs and expenses. In addition, with current borrowing  
7           and investment rates being extremely volatile, the Authority would be taking  
8           more interest rate risk related to its cost of debt and its investment returns as a  
9           result of the fall-out from the COVID-19 pandemic.
- 10          • PWSA's existing revolving line of credit is set to expire on July 1, 2020. In  
11          preparation for the expiration, the Authority set forth a request for information  
12          and pricing for a new revolving line of credit. Prior to the COVID-19  
13          pandemic, PWSA accepted a bid for their new revolving line of credit,  
14          however, after the COVID-19 pandemic, the bank needed to update their  
15          proposed pricing by approximately 110 to 120 basis points.

16          **Long-Term.** If the PUC were not to approve the request revenue increase during the  
17          current COVID-19 pandemic, the following long-term effects could occur:

- 18          • The Authority runs the risk of not having the appropriate revenues to  
19          adequately address the debt service payments for existing outstanding debt  
20          and could violate its rate covenant with bond holders.
- 21          • Rating agencies would continue to monitor PWSA's revenue shortfalls (due to  
22          the lack of a rate increase, as well as the results of COVID-19) and the  
23          absence of multi-year rate increase, which would most likely lead to a rating  
24          downgrade or multiple downgrades.
- 25          • In turn, the cost of borrowing would significantly increase for future projects,  
26          as well as the possibility of the lack of options for the required regular  
27          financing of its existing variable rate bonds.

28          In this environment, a multi-year rate adjustment is even more essential for PWSA in  
29          order to avoid the short- and long-term effects of revenue shortfalls, especially after the  
30          known and unknown effects of COVID-19 to the public finance market and the  
31          Authority.

32          **III. CONCLUSION**

33          **Q. DOES THAT COMPLETE YOUR SUPPLEMENTAL DIRECT TESTIMONY?**

34          A. Yes; however, I do reserve the right to supplement this testimony as may be appropriate.

**VERIFICATION**

I, Tom Huestis hereby state that: (1) I am Senior Managing Director Certifications/Licenses of Public Resources Advisory Group; (2) I have been retained by The Pittsburgh Water and Sewer Authority and am authorized to present testimony on its behalf; (3) the facts set forth in my testimony are true and correct (or are true and correct to the best of my knowledge, information and belief); and (4) I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C .S. § 4904 (relating to unsworn falsification to authorities).

May 15, 2020

Dated



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Tom Huestis, Senior Managing Director  
Certifications/Licenses of Public Resources Advisory Group

Consultant to:  
The Pittsburgh Water and Sewer Authority