

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
DIVISION OF PUBLIC UTILITIES AND CARRIERS  
89 JEFFERSON BOULEVARD  
WARWICK, RHODE ISLAND 02888**

IN RE: Providence Water Supply Board :  
Application for Authority to : Docket No. D-12-90  
Issue Debt :

**REPORT AND ORDER**

On November 30, 2012, the Providence Water Supply Board (“PWSB”) filed an application with the Rhode Island Division of Public Utilities and Carriers (“Division”) seeking authority to borrow from the Clean Water State Revolving Fund an amount not to exceed \$33,000,000. The application was filed in accordance with the requirements contained in Section 39-3-15 of the Rhode Island General Laws and Rule 14 of the Division’s *Rules of Practice and Procedure*.

In its filing, the PWSB states that it plans to borrow from the Rhode Island Clean Water Finance Agency (“RICWFA”) in an amount not to exceed \$33,000,000 for the replacement and rehabilitation of water mains and appurtenances at an interest rate not to exceed 4.5%. The filing states that the loan will be secured on a subordinate basis by the PW Enterprise Fund Revenues under the PWSB indenture.<sup>1</sup>

In response to the application filing, the Division conducted a duly noticed public hearing on January 11, 2013. The hearing was conducted in

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<sup>1</sup> PWSB Exhibit 1.

the Division's hearing room, located at 89 Jefferson Boulevard in Warwick.

The following counsel entered appearances:

For the PWSB: Michael R. McElroy, Esq.

For the Division's  
Advocacy Section: Leo J. Wold, Esq.  
Assistant Attorney General

The PWSB proffered four witnesses in support of its filing. All four witnesses submitted pre-filed direct testimony.<sup>2</sup> The witnesses were identified as Mr. Boyce Spinelli, PWSB's General Manager; Ms. Jeanne Bondarevskis, the PWSB's Director of Finance; Mr. Paul Gadoury, PWSB's former and recently retired Director of Engineering; and Ms. Maureen Gurghigian, Managing Director, First Southwest Company, 652 George Washington Highway, Lincoln, Rhode Island.

Mr. Spinelli testified that he has reviewed the pre-filed written testimony of PWSB's other witnesses in this docket and that he agrees with and supports their testimony. He related that the testimony is accurate and describes the purpose of the borrowing, the reason why the borrowing is necessary, the financial impact to the PWSB's ratepayers, and how the borrowing is consistent with the planned funding component of the PWSB's Infrastructure Replacement ("IFR") Plan.<sup>3</sup>

Ms. Bondarevskis began her testimony by relating that PWSB has had an IFR Plan and program in place since 1990, and that over this time, over

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<sup>2</sup> PWSB Exhibit 1.

<sup>3</sup> PWSB Exhibit 1, Spinelli pre-filed testimony, pp. 1-2.

\$245 million has been invested into the replacement of PWSB's aging infrastructure. Ms. Bondarevskis testified that this has been accomplished primarily through rates and periodic strategic borrowings through the RICWFA. Ms. Bondarevskis explained that PWSB's objective is to use long-term financing for peaks in IFR project costs and rate revenue for continuing projects.<sup>4</sup>

Ms. Bondarevskis testified that a \$33 million dollar bond is now needed to provide \$30 million in project funds (the difference is the cost of issuance and debt service reserves) to support the plan, beginning in fiscal year 2013. Ms. Bondarevskis related that an additional bond will be needed in FY 2018 and rate increases for the IFR program will be needed in FY 2014<sup>5</sup>, 2016 and 2020. Ms. Bondarevskis noted that the debt service associated with these bond issues will be charged to PWSB's IFR Fund.<sup>6</sup>

Ms. Bondarevskis next testified that the PWSB's Board issued a resolution on May 30, 2012 approving the borrowing; and that the Providence City Council is expected to approve the bond issue in January 2013. Ms. Bondarevskis proffered copies of the resolution and pending Bond

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<sup>4</sup> PWSB Exhibit 1, Bondarevskis pre-filed testimony, p. 2.

<sup>5</sup> Ms. Bondarevskis testified that PWSB will be making a general rate filing with the Public Utilities Commission by March 31, 2013. She related that the filing will include a request for at least an additional \$2 million in IFR funding, with an effective date of January 1, 2014. She added that the debt service on this borrowing will be between \$2.2 and \$2.4 million per year, depending on the final interest rate. Ms. Bondarevskis noted that "this is approximately 3-4% on \$60 million of revenue." PWSB Exhibit 1, Bondarevskis pre-filed testimony, p. 3.

<sup>6</sup> PWSB Exhibit 1, Bondarevskis pre-filed testimony, pp. 2-3.

Ordinance.<sup>7</sup> Ms. Bondarevskis also confirmed that PWSB received a Certificate of Approval from the State Department of Health approving PWSB's planned IFR projects.<sup>8</sup>

Ms. Bondarevskis next presented a pro forma capital structure showing the effects of the security issue. The related exhibit reflected that the PWSB's total capitalization would increase to about \$84.6 million after the bond issue.<sup>9</sup> The exhibit further shows that the PWSB's debt to total assets ratio will be 24.86% and debt to net utility plant will be 30.5% after this issue. Ms. Bondarevskis related that "according to First Southwest less than 40% is considered low."<sup>10</sup>

Ms. Bondarevskis testified that the PWSB requested funding through the RICWFA and that its application was approved on September 17, 2012. She related that PWSB made the request on June 6, 2012.<sup>11</sup>

Ms. Bondarevskis next summarized the terms and conditions attached to the instant borrowing. She testified that the City of Providence, acting for the PWSB, would borrow up to \$33,000,000 under the borrowing proposal. She related that a portion of the borrowing would be used for the costs of issuance (estimated at approximately \$430,000), debt service reserve (equal to one year's maximum debt service), and loan origination fees (equal to 1%

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<sup>7</sup> PWSB Exhibit 1, Bondarevskis pre-filed testimony, p. 4 and attached Exhibits A and B.

<sup>8</sup> PWSB Exhibit 1, Bondarevskis pre-filed testimony, p. 4 and attached Exhibit C.

<sup>9</sup> PWSB Exhibit 1, Bondarevskis pre-filed testimony, p. 5 and attached Exhibit D.

<sup>10</sup> PWSB Exhibit 1, Bondarevskis pre-filed testimony, p. 5.

<sup>11</sup> PWSB Exhibit 1, Bondarevskis pre-filed testimony, p. 5 and attached Exhibit E.

or \$330,000).<sup>12</sup> Ms. Bondarevskis indicated that “based on the estimated debt service schedules provided by... First Southwest, total interest payments... will vary from approximately \$9,440,269 to \$11,238,600... depending on the final interest rate.”<sup>13</sup> Regarding the interest rate, which Ms. Bondarevskis expected would be approximately 25% below the PWSB’s projected market rate at the closing date, she testified that First Southwest “assumed subsidized rates of between 2.37% and 2.79%.”<sup>14</sup> Ms. Bondarevskis also testified that the term of the loan would be twenty (20) years.<sup>15</sup>

In her final comments, Ms. Bondarevskis requested expedited consideration from the Division. She related that the RICWFA plans to issue a pooled bond in February 2013 and is waiting for Division approval of Providence Water’s request in order to price and close.<sup>16</sup>

Ms. Gurghigian related that she is providing assistance to PWSB and its financing team with respect to the instant borrowing through RICWFA. She testified that the proposed \$33,000,000 borrowing from the RICWFA is needed to finance improvements to the PWSB’s water supply system, including, but not limited to, distribution improvements, replacement and

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<sup>12</sup> PWSB Exhibit 1, Bondarevskis pre-filed testimony, pp. 7-8.

<sup>13</sup> PWSB Exhibit 1, Bondarevskis pre-filed testimony, pp. 6-7.

<sup>14</sup> Ms. Bondarevskis testified that the interest rate will not be fixed until such time as the PWSB receives authorization to proceed and RICWFA prices their bonds. PWSB Exhibit 1, Bondarevskis pre-filed testimony, p. 8.

<sup>15</sup> PWSB Exhibit 1, Bondarevskis pre-filed testimony, p. 7.

<sup>16</sup> PWSB Exhibit 1, Bondarevskis pre-filed testimony, p. 9.

rehabilitation of distribution mains, water services and valves, engineering costs and all attendant expenses.<sup>17</sup>

Ms. Gurghigian explained that of the \$33,000,000 loan amount, approximately \$30,335,130 will be available for project funds, and approximately \$2,234,870 will fund the debt service reserve fund. She stated that an additional \$430,000 is allocated for costs of issuance, including rating agency fees, bond counsel, financial advisor and trustee fees, and the RICWFA origination fee.<sup>18</sup>

In describing how the financing works, Ms. Gurghigian explained that pursuant to the Safe Drinking Water Act Amendments of 1996, Rhode Island has created a Drinking Water State Revolving Fund ("DWSRF") administered by the RICWFA to provide financial assistance to water suppliers. She related that the fund uses federal capitalization grants and state matching funds to provide subsidized (25% below market rate) loans to water suppliers for qualifying projects listed on the Project Priority List maintained by the Rhode Island Department of Health. Ms. Gurghigian explained that RICWFA sells bonds in the public market and loans the proceeds to its drinking water borrowers pursuant to loan agreements. Ms. Gurghigian related that the PWSB identified these projects in its capital program and they are listed on the Rhode Island Department of Health's Project Priority List. She testified

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<sup>17</sup> PWSB Exhibit 1, Gurghigian Testimony, pp. 1-3.

<sup>18</sup> PWSB Exhibit 1, Gurghigian Testimony, p. 4.

that these projects, therefore, qualify for a subsidized DWSRF loan through the RICWFA.<sup>19</sup>

Ms. Gurghigian testified that the term of the requested borrowing is 20 years. She explained that once the construction funds are fully drawn down, PWSB will have 20 years to repay the loan. Ms. Gurghigian noted that the full term including the construction period is not expected to exceed 23 years.<sup>20</sup> Ms. Gurghigian testified that based upon current market conditions, it is anticipated that the loan will not exceed a market rate of 4.09%, which, she related, would result in a projected subsidized rate of approximately 2.79%.<sup>21</sup>

Ms. Gurghigian testified that this borrowing will be done when the RICWFA sells its revenue bonds for the DWSRF, which is anticipated to take place in the first quarter of 2013. Ms. Gurghigian related that the RICWFA requires that all borrower approvals be in place prior to mailing the RICWFA Preliminary Official Statement.<sup>22</sup>

Ms. Gurghigian also proffered a debt service schedule with her pre-filed testimony. She testified that for the \$33,000,000 loan, annual debt service is expected to increase by approximately \$2,280,000 per year. She noted that this amount is subject to change based upon the actual

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<sup>19</sup> PWSB Exhibit 1, Gurghigian Testimony, pp. 3-4.

<sup>20</sup> PWSB Exhibit 1, Gurghigian Testimony, p. 4.

<sup>21</sup> PWSB Exhibit 1, Gurghigian Testimony, p. 4.

<sup>22</sup> PWSB Exhibit 1, Gurghigian Testimony, p. 4.

construction costs, draw schedule and prevailing interest rates at the time of borrowing.<sup>23</sup>

Mr. Paul Gadoury testified why the instant borrowing is necessary to the success of PWSB's IFR program. During this discussion, he quantified the total funding planned to complete PWSB's present 20-year program, a total investment of \$385,345,000.<sup>24</sup>

Mr. Gadoury identified and discussed several of the IFR projects that will continue to be funded through this borrowing. These projects included both water main rehabilitation and lead service replacement efforts. He also related that all of the projects have been approved by the Rhode Island Department of Health.<sup>25</sup>

The Division's Advocacy Section did not present any witnesses in this case. After a brief cross-examination of the PWSB's witnesses, the Advocacy Section stated for the record that it was satisfied from the evidence presented, that the PWSB had met the requisite burden of proof set forth in R.I.G.L. §39-3-15, et seq. and that the proposed borrowing was in the public interest.

### FINDINGS

Predicated on a careful examination of the record in this matter, the Division finds that the PWSB's application seeking authority to borrow from

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<sup>23</sup> PWSB Exhibit 1, Gurghigian Testimony, pp. 4-5 and transcript; also Schedule MG-1.

<sup>24</sup> PWSB Exhibit 1, Gadoury Testimony, pp. 2-3.

<sup>25</sup> PWSB Exhibit 1, Gadoury Testimony, pp. 3-8.

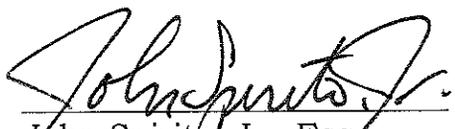
the Clean Water State Revolving Fund an amount not to exceed \$33,000,000, is reasonable and in the best interest of ratepayers.

Now, therefore, it is

(20930) ORDERED:

1. That the Providence Water Supply Board's November 30, 2012 application, which seeks Division approval under R.I.G.L. §39-3-15, to borrow from the Clean Water State Revolving Fund an amount not to exceed \$33,000,000, is hereby approved as filed.
2. That the Division hereby limits approval of the instant application to the terms and details identified in the record.

Dated and Effective at Warwick, Rhode Island on January 14, 2013.

  
John Spirito, Jr., Esq.  
Hearing Officer

Approved:   
Thomas F. Ahern  
Administrator