

Pre-Filed Testimony
Of
Maureen E. Gurghigian
On Behalf of
The City of Woonsocket
Water Division
Docket _____

December 2006

**PRE-FILED TESTIMONY OF
MAUREEN E. GURGHIGIAN**

1

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

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

5

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

7 A: I provide financial advisory services to issuers of municipal debt, primarily in the
8 State of Rhode Island. In addition, I have supervisory responsibility for First
9 Southwest's involvement with borrowings by the State of Rhode Island, numerous
10 public agencies and 30 Rhode Island municipalities, including the City of
11 Woonsocket. The firm serves approximately 2000 municipal issuers, including
12 more than 400 in New England. The Rhode Island office assists clients with the
13 origination of more than \$800 million in public financing issues each year.

14

15 **Q: Please describe your qualifications and experience.**

16 A: I hold a masters degree in business administration from the University of Rhode
17 Island. I am a registered Municipal Principal with the Municipal Securities
18 Rulemaking Board, holding the following licenses: Series 52, Series 53 and Series
19 6. Prior to joining First Southwest on June 8, 2001, I worked for Fleet Bank and/or
20 Fleet Securities for 16 years, all in municipal finance. From 1993 through 2000, I
21 served as Manager of the New England Investment Banking Group of Fleet
22 Securities, Inc. Before joining Fleet, I spent 8 years in Rhode Island State
23 Government, including four years as Director of the Governor's Policy Office under
24 then Governor J. Joseph Garrahy.

25

26 **Q: Have you previously testified before the Public Utilities Commission and
27 Division of Public utilities on rate related matters?**

28 A: Yes, I have provided testimony before the Public Utilities Commission and the
29 Division of Public Utilities on behalf of the Narragansett Bay Commission,
30 Woonsocket Water Division, Pawtucket Water Supply Board and other municipal
31 utilities.

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

2 A: I am providing assistance to the City of Woonsocket ("City") and Woonsocket
3 Water Division ("WWD") and its financing team with respect to the issuance of debt
4 through the Rhode Island Clean Water Finance Agency ("RICWFA"). I have been
5 asked by the WWD and the City to provide information on the debt service
6 requirements for existing and planned debt as well as to respond to related
7 questions.

8
9 **Q: How much debt issued by the City for the WWD is currently outstanding?**

10 A: The WWD currently has four debt issues outstanding: two revenue issues
11 borrowed from the RICWFA and two general obligation issues issued by the City of
12 Woonsocket on which the WWD pays the debt service. In total there is
13 \$16,649,223 in principal outstanding at June 30, 2006.

14
15 **Q: What is the projected schedule of debt service and why is approval of
16 additional rates required at this time?**

17 A: Schedule MG-1 summarizes Existing and Projected Debt Service. For existing
18 debt only, total debt service will increase from approximately \$1.6 million annually
19 to approximately \$1.8 million annually by fiscal 2008. Therefore, a rate increase is
20 required to enable the WWD to collect an additional \$200,000 to pay existing debt
21 service beginning July 1, 2007. (Please see Mr. Edge's Testimony and Schedules
22 for additional detail.)

23
24 **Q: Please discuss the WWD's financing plans.**

25 A: The WWD is planning to borrow approximately \$1.0 million from the Rhode Island
26 Clean Water Finance Agency ("RICWFA") during the 2007 fiscal year for capital
27 projects related to a new water treatment plant. In addition, in fiscal 2008, the
28 WWD is planning additional borrowing in the projected amount of \$30 million to
29 finance the construction of a new water treatment plant. The WWD plans to submit
30 an application for the initial \$1.0 million to the Rhode Island Clean Water Finance
31 Agency ("RICWFA") in early 2007 to have funds on hand by June 30, 2007. It is
32 possible that the initial \$1.0 million will be borrowed on a short term basis and
33 financed on a long-term basis when the \$30 million loan is sought for the water

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1 treatment plant in late 2007 or early 2008. The decision on the structure of the
2 initial \$1.0 million will depend upon prevailing interest rates and RICWFA loan
3 capacity. To undertake the 2007 Borrowing on a long term basis, the WWD will
4 need to dedicate a portion of its IFR allowance to debt service. Further, in order to
5 undertake the 2008 borrowing, it will be necessary to demonstrate to RICWFA and
6 investors, prior to the issuance of those bonds, that the WWD has rates
7 approved by the Rhode Island Public Utilities Commission that are sufficient to pay
8 the annual principal and interest on the bonds and the coverage required under the
9 Woonsocket Trust Indenture. In short, RICWFA and potential investors require
10 assurances that the WWD will have sufficient revenues to make the required
11 payments on the loans. The RICWFA requires that rates be in place prior to
12 funding any loan. In addition, Section 205(2) (iv) of the Woonsocket Trust
13 Indenture requires that prior to the issuance of bonds, a certified public accountant
14 or consulting engineer provide a certificate demonstrating debt service coverage
15 for the first three fiscal years following the issuance of the debt. Further, no rate
16 increases can be projected for the first full fiscal year following the issuance for the
17 purposes of this certificate that have not already been adopted by the City and
18 approved by the Commission.

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

22 The projected debt service for the new borrowings is also displayed in Schedule
23 MG-1. For the planned new debt, annual debt service is expected to increase by
24 approximately \$2.3 million. However, the increases are moderated through the
25 use of capitalized interest in the first two years of each of the loans. The rate
26 increases are also moderated by the fact that the WWD Bond Indenture permits
27 the ability to dedicate IFR funds to debt service, however the WWD intends to do
28 so only in the short term to enable the WWD to borrow the initial \$1.0 million in
29 2007 prior to the collection of the increased rates for debt service. It is their
30 intention to use the IFR funds for coverage purposes once debt service has been
31 satisfied on an annual basis, which should enable the WWD to use its IFR funds
32 for Pay-Go-Capital Projects once the rates are in place to pay debt service on the
33 new borrowings. Peak debt service is expected to reach approximately \$4 million

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1 annually which would require approximately \$1.0 million in debt service coverage.
2 As noted above, the coverage requirement can be met through the IFR funds
3 allocated to Pay-Go-Capital Projects. The WWD plan of finance is expected to
4 utilize Pay-Go-Capital or (IFR funds) for certain distribution system improvements.
5 The ultimate borrowing size for the Treatment Plant financing will take into
6 consideration all sources of financing. For example, it is possible that the projected
7 increase in debt service could be further moderated through additional use of Pay-
8 Go-Capital for projects. Such alternatives will be considered as the plan of finance
9 for the new Water Treatment Plant evolves.

10
11 **Q: How will the financings work?**

12 A: The financing structure for the WWD Water Treatment Plant involves the use of
13 subsidized loans from the RICWFA secured solely by water rates and charges. In
14 accordance to the Safe Drinking Water Act Amendments of 1996, Rhode Island
15 has created a Drinking Water State Revolving Fund ("DWSRF") administered by
16 the RICWFA to provide financial assistance to water suppliers. This fund uses
17 federal capitalization grants and state matching funds to provide subsidized (25%
18 below market-rate) loans to water suppliers for qualifying projects listed on the
19 Project Priority List maintained by the Department of Health. Under the proposed
20 plan of finance, the RICWFA DWSRF will provide the funding for the WWD's
21 capital program. The RICWFA sells bonds in the public market and loans the
22 proceeds to its drinking water borrowers pursuant to loan agreements. The WWD
23 loan agreement will conform to the WWD Indenture of Trust adopted in connection
24 with the 2004 borrowing and previous Loan Agreements with RICWFA.

25
26 **Q: Please describe the rate impact of the financing.**

27 A: As noted earlier, a rate increase is required to fund the \$200,000 increase in debt
28 service related to existing loans. The timing of the increase in debt service was
29 planned when the 2005 loan was closed since RICWFA does not require its
30 borrowers to begin to pay principal until the funds are drawn down.

31
32 There is no immediate impact on rates from the proposed \$ 1.0 million borrowing.
33 The debt service on the new bonds will be paid from current IFR funds until

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1 completion of the borrowing for new Water Treatment Plant, for which the first
2 issue is planned early in the calendar year 2008. Schedule MG-1 projects the
3 impact of the new borrowings, but is subject to changed based upon the actual
4 construction costs, draw schedule and prevailing interest rates at the time of
5 borrowing.

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7 **Q: Does this complete your testimony?**

8 A: Yes, it does

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CITY OF WOONSOCKET
EXISTING AND PROPOSED DEBT SERVICE SUMMARY

Fiscal Year	Debt Service				Projected Debt Service Summary*				Total Existing and Projected
	1997 GO Debt	2005 GO Debt	2003 CWFA	2005 Agency Fee	2007 Agency Fee	2008 Debt Service	2008 Agency Fee	Total	
2007	248,980	497,188	778,040	47,988	37,500	5,000	-	-	1,848,033
2008	243,508	495,163	772,845	46,050	71,844	4,913	-	42,500	1,878,027
2009	237,680	497,813	771,264	44,075	70,531	4,738	150,000	1,351,756	3,180,774
2010	118,572	504,975	768,216	42,050	69,219	4,563	147,413	2,363,275	4,075,764
2011	-	500,450	763,789	39,975	68,219	4,563	142,150	2,352,056	3,933,604
2012	-	505,575	763,093	37,838	72,813	4,375	136,700	2,349,138	3,893,606
2013	-	505,000	761,208	35,623	71,313	4,175	131,038	2,344,306	3,923,044
2014	-	504,000	759,293	33,338	69,813	3,975	125,150	2,337,563	3,810,680
2015	-	-	754,366	30,975	73,219	3,763	119,050	2,328,906	3,390,966
2016	-	-	754,321	28,525	71,531	3,538	112,725	2,323,231	3,382,713
2017	-	-	753,128	25,975	68,844	3,313	106,163	2,310,538	3,365,664
2018	-	-	745,865	23,338	73,063	3,075	99,350	2,298,350	3,355,280
2019	-	-	742,453	20,913	71,188	2,825	92,275	2,289,856	3,337,773
2020	-	-	742,620	17,775	69,313	2,575	84,938	2,281,919	3,325,765
2021	-	-	736,392	14,825	72,344	2,313	77,325	2,272,431	3,309,245
2022	-	-	733,763	11,763	70,281	2,038	71,325	2,265,288	3,293,889
2023	-	-	729,627	8,575	73,125	1,750	69,425	2,250,488	3,278,864
2024	-	-	728,933	5,250	70,875	1,450	62,725	2,238,031	3,260,072
2025	-	-	726,578	1,775	68,625	1,150	43,913	2,232,600	3,241,370
2026	-	-	-	-	67,281	838	34,763	2,219,088	2,506,681
2027	-	-	-	-	68,944	513	25,263	2,207,494	2,207,494
2028	-	-	-	-	71,313	175	15,413	2,124,200	2,124,200
2029	-	-	-	-	-	-	5,200	-	-

* Assumed subsidized rate of 3.7500%