

**PREFILED REBUTTAL TESTIMONY**

**Of**

**Maureen E. Gurghigian  
Regional Managing Director  
Hilltop Securities, Inc.**

**For**

**City of Newport, Utilities Department, Water Division**

**RHODE ISLAND PUBLIC UTILITIES COMMISSION**

**Docket NO. 4933**

**AUGUST 21, 2019**

1 **INTRODUCTION**

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

3 A: My name is Maureen E. Gurghigian and I am a Regional Managing Director at  
4 Hilltop Securities Inc. ("HilltopSecurities") based in the Lincoln, Rhode Island office.

5

6 **Q: Please describe your education and experience.**

7 A: I hold a Master's Degree in business administration from the University of Rhode  
8 Island. I am a registered Municipal Advisor and Municipal Securities Principal with  
9 the Municipal Securities Rulemaking Board, holding the following licenses: Series  
10 50, Series 52, Series 53 and Series 63. Prior to joining HilltopSecurities, at the time  
11 known as FirstSouthwest, in 2001, I worked in public finance for Fleet Bank and/or  
12 Fleet Securities for 16 years. From 1993 through 2000, I served as Manager of  
13 New England Investment Banking at Fleet Securities, Inc. Before joining Fleet, I  
14 spent 8 years in Rhode Island State Government, including four years as Director of  
15 the Governor's Policy Office under then Governor J. Joseph Garrahy.

16

17 **Q. Can you describe HilltopSecurities and the type of services it provides?**

18 A. Since 1946, HilltopSecurities has served as financial advisor to many issuers such as  
19 states, schools, cities, airports, hospitals, sports complexes, water and wastewater  
20 authorities and districts and toll roads. Currently the firm serves more than 2,000  
21 municipalities and agencies, including more than 400 in New England.  
22 HilltopSecurities is a full-service investment bank that also underwrites municipal  
23 securities and assists clients with structured products, arbitrage rebate  
24 calculations, asset management and continuing disclosure.

25

26

1 **Q: Can you please describe your duties at HilltopSecurities.**

2 A: I provide financial advisory services to issuers of municipal debt, primarily in the  
3 states of Rhode Island, Connecticut and Maine. Annually, I am involved in more  
4 than twenty publicly offered bond and note issues. In addition, I have supervisory  
5 responsibility for HilltopSecurities' involvement with borrowings by numerous  
6 public agencies and more than 20 Rhode Island municipalities. Our office assists  
7 clients with the origination of more than \$800 million in public financing issues  
8 each year.

9

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

12 A: Yes, I have provided testimony before the Public Utilities Commission and the  
13 Division of Public Utilities and Carriers on behalf of the Woonsocket Water  
14 Division, Pawtucket Water Supply Board, Providence Water Supply Board and the  
15 City of Newport, Utilities Department, Water Division.

16

17 **OVERVIEW**

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

19 A: I am providing assistance to the City of Newport ("City") and its Utilities  
20 Department ("Newport Water") as well as its financing team regarding the Capital  
21 Improvement Program ("CIP") including future issues of debt through Rhode Island  
22 Infrastructure Bank ("RIIB"). The City requested that I review the testimony  
23 submitted by the Town of Middletown, provide information on Newport Water's  
24 funding of its CIP, including debt service requirements for the proposed  
25 borrowings, and respond to related questions.

26

1 **Q: How does Newport Water plan to fund its CIP in this Docket?**

2 A. Newport Water plans to use a mix of Infrastructure Replacement (IFR) funds from  
3 its restricted Capital Account and debt to finance the projects included in its five  
4 year CIP. There are three projects in the CIP that were addressed in the testimony  
5 submitted by the Town of Middletown:

6 1. The Reservoir Road Tank Improvement (\$1.5 million), which will be paid for  
7 with IFR funds during FY2020 and FY2021.

8 2. The Forest Avenue Pump Station Retrofit Improvements(\$1.85 million),  
9 which will also be funded with IFR from FY2022 through FY2024.

10 3. System-Wide Main Improvements (\$6.75 million), which Newport Water  
11 plans to finance with planned debt issuances through RIIB in FY2020 and  
12 FY2022.

13

14 **Q. Have you reviewed the proposed changes to the Newport Water Plan of Finance**  
15 **proposed by Middletown's rate consultant?**

16 A. Yes. As set forth above, Newport Water's plan of finance contemplates a mix of IFR  
17 funds and two borrowings from the Drinking Water State Revolving Fund  
18 ("DWSRF") administered by RIIB. Essentially, Mr. Russell, Middletown's rate  
19 consultant, has recommended that Newport Water fund the Reservoir Road Tank  
20 and Forest Avenue Pump Station Improvements through additional debt in lieu of  
21 IFR funding. The debt for these projects would include three Bond Anticipation  
22 Notes ("BANs") and two long term loans. For the System-Wide Main  
23 Improvements, he has proposed a delay in Newport Water's two proposed  
24 borrowings and the addition of three new BANs. It appears that this alternative  
25 financing plan will increase the cost of the two projects currently scheduled to be

1 funded by IFR, add additional cost of issuance, increase the size of the required  
2 borrowings and add unnecessary risk.

3

4 **RESERVOIR ROAD TANK/FOREST AVENUE PUMP STATION**

5 **Q: Please explain the impact of changing the funding for the Reservoir Road Tank  
6 and Forest Avenue Pump Station improvements from IFR to Debt.**

7 A. Currently, the estimated cost of the Reservoir Road Tank project is \$1.5 million,  
8 and the Forest Avenue Pump station is \$1.85 million, for a combined total cost of  
9 \$3.35 million.

10

11 After reviewing Mr. Russell’s testimony, it was difficult to estimate the final  
12 combined cost of these projects under his alternative plan. On page 21 of his  
13 testimony, he set forth a chart that showed no payments being made in FY 2021  
14 and FY 2024, which suggested that interest on the BANs would be capitalized, and  
15 which would further increase the size of the debt. However, Middletown’s  
16 response to Newport Water Data Request 2-1, indicated that errors were made in  
17 Mr. Russell’s testimony and that revised estimates will be provided. However, I  
18 have not seen the revised estimates as yet. Using the figures Mr. Russell provided  
19 in his testimony the total cost of these projects would increase to \$4,704,000,  
20 which is calculated as follows:

<b><u>Borrowing</u></b>	<b><u>Total Cost</u></b>
BAN - \$700,000 with “cost at 4% - \$28,000”;	\$28,000
Debt Issue -\$1.7 million “with annual Debt Service payments of about \$131,000” for twenty years	\$2,620,000
BANs for \$200,000 with “Cost at 4% - \$8,000”;	\$8,000
BANs for \$700,000 with “Cost at 4% - \$28,000”; and,	\$28,000

Debt Issue of \$1.3 million “with annual Debt Service payments of about \$101,000” for twenty years	\$2,020,000
Total	\$4,704,000

1

2 **Q. Would Newport Water incur any other costs by funding these two projects with**  
3 **debt rather than IFR funds?**

4 A. Yes, using debt rather than IFR funds will require a borrowing that is larger than  
5 the project cost. Any debt issued under the Newport Water Indenture of Trust will  
6 need a debt service reserve fund (“DSRF”), which would increase the size of the  
7 bond issue by up to 10%. In addition, legal fees, rating fees, financial advisory  
8 fees, trustee fees and origination fees generally add 1.5% to 2.0% in addition to  
9 the DSRF. Finally, as addressed above, because there was no additional debt  
10 service in FY 2020 and FY 2021, as noted by Mr. Russell, I originally assumed that  
11 the interest due at maturity on the BANs would be paid by the bond issue, which  
12 would further increase the size of the issue. Based on the data response that may  
13 not be the case, but I have not yet seen Mr. Russell’s revised borrowing estimates.  
14 Finally, since Newport Water must comply with an additional bonds test, its net  
15 revenues must equal at least 125% of projected debt service.

16

17 **Q. Middletown’s responses to Newport Water’s data requests indicate that Mr.**  
18 **Russell took into account the added costs associated with his proposed**  
19 **borrowings. Do you have any observations on these responses?**

20 A. I reviewed Middletown’s responses, and as I understand them, it appears that Mr.  
21 Russell attempted to account for the added costs associated with the three BANs  
22 and two full borrowings, but it does not appear that he fully captured the added  
23 cost. The main reason is that as stated earlier in my testimony, the combined cost  
24 of the Reservoir Tank and Forest Avenue Pump Station Improvements is \$3.35

1 million, but the principal amounts of the two long-term borrowings he proposes is  
2 only \$3 million dollars (\$1.7 million in FY 2021 and \$1.3 million in FY 2024). Thus, I  
3 am not sure that his proposed borrowings would even cover the cost of the  
4 projects.

5

6 **Q. Earlier in your testimony you indicated that Mr. Russell's plan also added**  
7 **unnecessary risk to Newport Water's current financing plan. Why is that?**

8 A. The increased risk comes from using BANs as part of his plan of finance.

9

10 **Q. Can you briefly explain how Bond Anticipation Notes work?**

11 A. A note is a short term obligation of an issuer to repay a specified principal amount  
12 on a certain date, together with interest at a stated rate. Typically notes are issued  
13 for one year and may be renewed or rolled over (with interest paid) at maturity.

14 Bond Anticipation Notes are notes issued by a governmental unit, usually for capital  
15 projects, that are repaid from the proceeds of the issuance of long term bonds.  
16 BANs can be used for interim financing if needed prior to long term bonds being  
17 issued.

18

19 **Q. Please explain the risks involved with Bond Anticipation Notes.**

20 A. Using Bond Anticipation Notes involves two risks. One is interest rate risk in that  
21 the interest rate is only fixed for the duration of the BANs, subjecting Newport  
22 Water to interest rate risk on the long-term Bond Issue that will retire the BANs.  
23 The second risk is known as takeout risk. Market conditions at the time of the  
24 maturity of the BANs could be very different from the time of origination. There  
25 could be an issue with repaying the BANs with Bonds. For example, RIIB capacity  
26 may not be sufficient to loan the full amount to Newport Water or RIIB may not

1 have a bond issue scheduled at the time the BANs mature. While unlikely, it is  
2 possible and could put Newport Water in the position of needing to renew or  
3 rollover the BANs, adding additional costs of issuance and interest cost. Such  
4 inefficiencies are not only costly, they are a red flag to the rating agencies that an  
5 issuer is not able to fund its long term projects with long term funding sources.

6  
7 In addition, there is no guarantee the RIIB would be able to make a bond  
8 anticipation loan to Newport Water forcing the City to use its General Obligation  
9 authority to issue Notes. The City has very limited authority to issue for water  
10 purposes away from RIIB and doing so could have an impact on the City's own  
11 credit rating.

12  
13 **SYSTEM-WIDE MAIN IMPROVEMENTS**

14 **Q. How does Mr. Russell's alternative financing plan alter Newport Water's plan to**  
15 **fund the System-Wide Main Improvements?**

16 A. As set forth previously in my testimony, Newport Water plans to fund this \$6.75  
17 million project with two long-term borrowings through RIIB. The first loan would  
18 be in FY 2020 and the second in FY 2022. Mr. Russell proposes three BANs and two  
19 long-term borrowings, the first in FY 2022 and the second in FY 2024.

20  
21 **Q. How does Mr. Russell's alternative financing plan impact Newport Water?**

22 A. The biggest impact is the introduction of BANs, which brings the risk detailed  
23 above in my testimony. In addition, I believe Ms. Forgue also has some concerns,  
24 which are addressed in her testimony.

25  
26

1 **CONCLUSION**

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

3 **A:** Yes, it does.

**CERTIFICATION**

I hereby certify that on August 21, 2019, I sent a copy of the within to all parties set forth on the attached Service List by electronic mail and copies to Luly Massaro, Commission Clerk, by electronic mail and regular mail.

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