

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

IN RE: Narragansett Bay Commission :
Application For Authority to Incur Debt : Docket No. D-04-45

REPORT AND ORDER

On November 5, 2004, the Narragansett Bay Commission (“NBC”), One Service Road, Providence, Rhode Island, filed an application with the Rhode Island Division of Public Utilities and Carriers (“Division”) seeking authority to enter into long-term debt and issue revenue bonds in an amount not to exceed \$40,000,000. The application was filed in accordance with the requirements contained in Section 39-3-15 of the Rhode Island General Laws.

In response to the application filing, the Division conducted a duly noticed public hearing on December 6, 2004. The hearing was conducted in the Division’s hearing room, located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances:

For the NBC:	Peter J. McGinn, Esq.
For the Division’s Advocacy Section:	Leo J. Wold, Esq. Special Assistant Attorney General

The NBC proffered two witnesses in support of its application. The witnesses were identified as Ms. Karen L. Giebink, the NBC’s Director of Administration and Finance; and Ms. Maureen Gurghigian, Senior Vice President, First Southwest Company.

Ms. Giebink testified that the NBC is requesting Division approval to enter into long-term debt and issue revenue bonds for an amount not to exceed \$40,000,000 at an interest rate not to exceed a market rate of 5.20%, which would result in a projected blended subsidized rate of 2.10%. She also testified that the loan will be from the Rhode Island Clean Water Finance Agency (“RICWFA”) and will be used to fund capital projects.¹

Ms. Giebink noted that the RICWFA is the State agency that administers the State Revolving Loan Fund (“SRF”) program that provides low interest loans to qualified borrowers. She further noted that the Division has approved ten NBC loans from the RICWFA to date, totaling \$226,169,709.²

Ms. Giebink testified that the loan would be used to provide additional funding for:

*“...acquisition, design, evaluation, inspection, demolition, construction, improvement, installation, rehabilitation, furnishing and equipping of the Phase I Combined Sewer Overflow (CSO) abatement project, the Bucklin Point Wastewater Treatment Facility the Field’s Point Wastewater Treatment Facility, CSO Flow and Water Quality Monitoring, a Stormwater Attenuation Pilot Study, Floatables Control Facilities and Short-Term Solids Handling Improvements”.*³

Ms. Giebink added that some of the loan proceeds will also be used to pay RICWFA fees and bond issuance costs.⁴

¹ NBC Exhibit 1, *Giebink Testimony*, p. 2.

² Ms. Giebink described the previously approved loans as: Pool Loans I, II, III, IV, V, VI, VII and contracts 201, 401 and 601. *Id.*

³ *Id.*, pp. 2-3.

⁴ *Id.*, p. 3.

Ms. Giebink next testified that other than the instant petition for authority to issue the new bonds, the NBC has met all of the other requirements needed to close on the loan. She related that on September 16, 2004 the NBC's Board of Commissioners passed a resolution authorizing the NBC to borrow an amount not to exceed \$40,000,000 under the RICWFA administered SRF program.⁵ Ms. Giebink further testified that the RICWFA approved the NBC's financing application on October 13, 2004.⁶ Ms. Giebink also confirmed that Standard and Poor's has recently updated the NBC's long-term rating as well, which rating she noted remains at an "A+".⁷

Ms. Giebink next testified that the loan would be structured as a blended rate loan, similar to the NBC's last loan from the RICWFA. She related that this means that 50% of the loan will be made at the subsidized interest rate of 1/3 off current market rates and 50% of the loan at zero percent interest. She explained however, that the amortization of this loan is different from the prior loans from the RICWFA in that the payments have been structured to "wrap around" NBC's restructured and amended 2001 Series Clean Water Revenue Bonds.⁸ She explained that as a result of this "wrapping" the NBC's overall annual payments will not increase and the NBC will realize savings of approximately \$1,000,000 in the final year of the loan currently presented to the Division for approval.⁹

⁵ Evidenced by "Exhibit 1", attached to Ms. Giebink's pre-filed testimony.

⁶ Evidenced by "Exhibit 2", attached to Ms. Giebink's pre-filed testimony.

⁷ Id., and Transcript.

⁸ A description of, and reason for, the restructuring is contained in Ms. Gurghigian's pre-filed testimony, infra.

⁹ Id., p. 4.

In her final comments, Ms. Giebink related that the NBC's current rates generate only sufficient revenue to fund the debt service associated with the instant loan for the fiscal year ending June 30, 2005. Ms. Giebink testified, however, that to meet coverage requirements in subsequent fiscal years, the NBC filed for debt service-related rate relief with the Public Utilities Commission on October 4, 2004, and which the Commission on November 12, 2004 recently approved. She related that the new rates will take effect on July 1, 2005 and generate the additional revenue required to meet the future coverage requirements of this loan.¹⁰ Lastly, she noted that the closing of this loan is scheduled for December 9, 2004.¹¹

Ms. Maureen E. Gurghigian began her testimony by stating that First Southwest Company provides financial advisory services to issuers of municipal debt, and serves as the NBC's financial advisor in this matter. Ms. Gurghigian related that she has provided financing services to the State of Rhode Island, numerous public agencies and thirty Rhode Island municipalities over the years. She added that First Southwest Company's Rhode Island office assists clients with the origination of more than \$800 million in public financing issues each year.¹²

Ms. Gurghigian related that she has served as financial advisor to the NBC for the past 15 years. She stated that in her capacity as the NBC's financial advisor she has assisted the NBC with a number of long-term

¹⁰ Id., pp. 4-5; and Transcript.

¹¹ Id., p. 5.

¹² Id., Gurghigian Testimony, pp. 1-2.

borrowings from the RICWFA, several short-term borrowings and its variable rate demand bonds. She related that her services have also included the facilitation of the credit rating process, loan structuring and other functions.¹³

Ms. Gurghigian next provided some background regarding the NBC's proposed borrowing plan and the restructuring of the NBC's Series 2001 Clean Water Revenue Bonds, which was briefly mentioned by Ms. Giebink. To start, Ms. Gurghigian noted that the RICWFA currently makes most loans to eligible borrowers with 50% of the loan at the subsidized interest rate of 1/3 off current market rates and 50% of the loan at zero percent interest. She added that the RICWFA uses capitalization grants, recycled funds and other revenues to provide the interest subsidy for the subsidized loan program. Ms. Gurghigian explained that the "Zero Interest Loan Program" investment, consisting of the \$57,000,000 loan made to the NBC in 2001, provides the additional subsidy required to make 50% of the loans at zero percent. She related that the NBC's loan repayments are used to reduce the interest on the 'zero' portion from the subsidized rate to zero percent. She explained that as a result, any restructuring of the \$57,000,000 NBC loan would have an impact on the RICWFA's zero percent capacity.¹⁴

Ms. Gurghigian testified that the Zero Percent Loan Program is reviewed as part of the RICWFA's ongoing capacity analysis. She related that based on the most recent analysis, it became evident that unless the NBC loan was restructured, there would be no capacity for zero interest loans from 2006

¹³ Id., pp. 2-3.

¹⁴ Id., pp. 3-4.

through 2011. Ms. Gurghigian testified that this would adversely impact all borrowers, including the NBC, which Ms. Gurghigian described as the RICWFA's largest borrower.¹⁵

Ms. Gurghigian testified that given the results of the analysis, the RICWFA and First Southwest Company developed a restructuring alternative that would enhance the capacity of the Zero Interest Loan Program through accelerated payments on the \$57,000,000 loan but not have a negative impact on the NBC's cash flow. Ms. Gurghigian testified that the NBC will benefit from the restructuring since the RICWFA will be able to make total loans of approximately \$62,700,000 in 2006 utilizing the 50% zero interest program for all or a portion of the loans. She related that if the NBC loan were not restructured, there would be no zero interest capacity in 2006.¹⁶

The Division's Advocacy Section did not present any witnesses in this docket. It did, however, proffer two exhibits. The first exhibit contained the data responses it had received from the NBC during the discovery period leading up to the December 6, 2004 hearing.¹⁷ The second exhibit reflected an evaluation of the proposed restructuring of the 2001 Series Clean Water Revenue Bonds, which was prepared by one of the Division's consultants.¹⁸

After a brief cross-examination of the NBC's witnesses, the Advocacy Section stated for the record that it was satisfied from the evidence presented,

¹⁵ *Id.*, p. 4.

¹⁶ *Id.*, pp. 4-5.

¹⁷ Advocacy Section Exhibit 1.

¹⁸ Advocacy Section Exhibit 2.

that the NBC 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 NBC's application seeking approval to enter into long-term debt and issue revenue bonds in an amount not to exceed \$40,000,000, is reasonable and in the best interest of ratepayers.

Now, therefore, it is

(18088) ORDERED:

1. That the Narragansett Bay Commission's November 5, 2004 application, seeking authority to enter into long-term debt and issue revenue bonds in an amount not to exceed \$40,000,000, is hereby approved as filed.
2. That the Division hereby makes this approval contingent upon the NBC's use of the debt service allowance previously approved by the Commission, or if subsequently required, by additional debt service allowances approved by the Commission.
3. 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 DECEMBER 6, 2004.

John Spirito, Jr., Esq.
Hearing Officer

Thomas F. Ahern
Administrator

