

**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-06-63

REPORT AND ORDER

On October 6, 2006, 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 \$30,000,000. 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 November 14, 2006. 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 pre-filed direct testimony from 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 \$30,000,000 at an interest rate not to exceed a market rate of 4.7%, which would result in a projected blended subsidized rate of 2.5%. 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 twelve NBC loans from the RICWFA to date, totaling \$296,169,709.²

Ms. Giebink testified that the loan would be used to fund eligible projects in the NBC’s Capital Improvement Program including contracts 30206C and 30213C and 30214C of the CSO Phase I Facilities Project. She related that the loan might also be used to provide additional funding for:

“... the acquisition, design, evaluation, inspection, construction, improvement, cleaning, installation, rehabilitation, furnishing and equipping of: (i) Phase I Combined Sewer Overflow (CSO) Facilities, (ii) the Phase II CSO Facilities (iii) the Demolition of Field’s Point Incinerating Facility, (iv) the Field’s Point Wastewater Treatment Facility Nitrogen Removal Facilities, (v) Bucklin Point Biogas Microturbines (vi) Field’s Point Wind Turbines (vii) a Site Specific Study for the Metals Compliance Plan, (viii) Water Quality Monitoring, (ix) the River Model Development, (x) the Asset Management System, (xi) the Improvements to Air Piping and Splitter Box D, (xii) the Upgrade of the Field’s Point Operations Building and other miscellaneous improvements at various locations, (xiii) the Bucklin Point Wastewater Treatment Facility Nitrogen

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, VIII, IX and contracts 201, 401 and 601. Id.

Removal (xiv) the Bucklin Point Wastewater Treatment Facilities Improvements (xv) the Capital Management Operations and Management (CMOM) Plan Development, (xvi) a System-Wide Facilities Plan, (xvii) the Washington Highway, Omega and Central Ave. Pump Stations, (xviii) the Geographic Information System (GIS) Implementation, (xix) the Lab Building Heating, Ventilating and Air Conditioning Repairs, (xx) the Floatables Control Facilities, and (xxi) Commission Interceptors...”³

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

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 27, 2006 the NBC’s Board of Commissioners passed a resolution authorizing the NBC to borrow an amount not to exceed \$30,000,000 under the RICWFA administered SRF program.⁵ She testified that the NBC had requested the loan from the RICWFA on June 29, 2006, and that the RICWFA approved the NBC’s financing application on September 14, 2006.⁶ Ms. Giebink also related that Standard and Poor’s had recently conducted a credit rating review of the NBC and that the rating should be announced shortly. She predicted that the NBC’s long-term rating would remain 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

³ *Id.*, pp. 2-3.

⁴ *Id.*, p. 3.

⁵ Evidenced by “Exhibit 2”, attached to Ms. Giebink’s pre-filed testimony.

⁶ Evidenced by “Exhibit 1”, attached to Ms. Giebink’s pre-filed testimony.

⁷ *Id.*, and Transcript.

current market rates and 50% of the loan at zero percent interest. Ms. Giebink related that although pricing on the loan has not yet taken place, the RICWFA is confident, given current market conditions, that the interest rate for this loan will not exceed 4.7%. Ms. Giebink thereupon proffered debt service schedules reflecting a \$30 million loan at a blended rate of approximately 2.5%.⁸

Ms. Giebink related that the NBC's current rates generate sufficient revenue to meet the debt service payments associated with the instant loan.⁹ She testified that NBC's current rates also generate sufficient debt service coverage for the fiscal year ending June 30, 2007. However, Ms. Giebink related that revenues are insufficient to meet coverage requirements in subsequent years. Nevertheless, Ms. Giebink was confident that the Public Utilities Commission, based on an earlier decision in Docket No. 3483, would be authorizing additional rate relief related to debt service and debt service coverage to take effect on July 1, 2007. Lastly, she noted that the closing of this loan is scheduled for December 13, 2006.¹⁰

As in previous related dockets, Ms. Maureen E. Gurghigian began her testimony by stating that First Southwest Company serves as financial advisor to many bond issuers such as schools, cities, airports, hospitals, sports complexes, water and wastewater authorities and districts and toll roads. She related that the firm currently serves more than 2000 municipalities and agencies, including more than 400 in New England.¹¹

⁸ Id., and "Exhibit KG-3".

⁹ Id., p. 4; and Transcript.

¹⁰ Id., p. 4; and Transcript.

¹¹ Id., Gurghigian Testimony, pp. 1-2.

Ms. Gurghigian related that she has served as financial advisor to the NBC for the past 17 years. She stated that in her capacity as the NBC's financial advisor she has assisted the NBC with a number of long-term borrowings from the RICWFA, several short-term borrowings, the \$70 million Variable Rate Demand Bonds issued in April 2004 and the \$45 million Open Market Revenue Bond Issue in August 2005. She related that her services have included the facilitation of the credit rating process, loan structuring and other functions.¹²

Ms. Gurghigian provided additional information regarding the proposed \$30,000,000 revenue bond issue and specifically addressed the anticipated interest rate. Ms. Gurghigian testified that NBC's financing strategy maximizes the use of RICWFA loans, which she described as the "lowest cost form of financing." However, due to RICWFA lending capacity limitations, Ms. Gurghigian explained that the NBC has had to supplement the loans through the issuance of open market revenue bonds. Regarding this issue, she testified that the NBC has previously issued \$70,000,000 in Variable Rate Demand Obligations ("VRDO") as well as \$45,000,000 in revenue bonds.¹³

Ms. Gurghigian testified that the proposed RICWFA loan is amortized over 20 years with final maturity in 2026. Ms. Gurghigian noted that the amortization of this loan is also similar to prior loans from the RICWFA with slight modifications to ensure compliance with the Trust Indenture coverage requirements. She reiterated that the loan would be structured as a blended rate loan, similar to NBC's last loan from the RICWFA. She explained that 50% of the

¹² *Id.*, p. 2.

¹³ *Id.*, p. 3.

loan would be made at the subsidized interest rate of 1/3 off current market rates and 50% of the loan at zero percent interest. Ms. Gurghigian related that based upon market conditions, it is anticipated that the loan will not exceed a market rate of 4.7%, which she noted would result in a projected blended subsidized rate of 2% plus RICWFA service fees of 0.5%.¹⁴

In her final comments, Ms. Gurghigian confirmed that the NBC plans to borrow the maximum amount available from the RICWFA in fiscal years 2007 and 2008 for a total of \$42 million. She added that the NBC must also borrow \$42.5 million in open market revenue bonds to “fund the ‘gap’ between CIP funding needs and RICWFA capacity”. She anticipated that the NBC would also be seeking Division approval of an open market revenue bond issue in a filing later this fall.¹⁵

The Division’s Advocacy Section did not present any witnesses in this docket. 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, 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 thorough examination of the record in this matter, including the “Loan Agreement” to be executed by the NBC and the RICWFA at the scheduled closing and the NBC’s “Financials”¹⁶, the Division finds that the NBC’s application seeking approval to enter into long-term debt and issue

¹⁴ Id.

¹⁵ Id., p.4.

¹⁶ Both contained in NBC Exhibit 1.

revenue bonds in an amount not to exceed \$30,000,000, is reasonable and in the best interest of ratepayers.

Now, therefore, it is

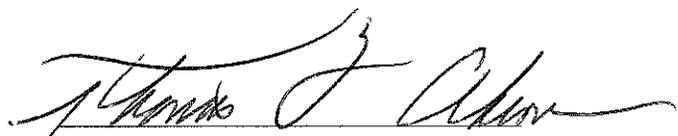
(18772) ORDERED:

1. That the Narragansett Bay Commission's October 6, 2006 application, seeking authority to enter into long-term debt and issue revenue bonds in an amount not to exceed \$30,000,000, 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 Public Utilities Commission, or if subsequently required, by additional debt service allowances approved by the Public Utilities 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 NOVEMBER 15, 2006.



John Spirito, Jr., Esq.
Hearing Officer



Thomas F. Ahern
Administrator