

that current interest rates “have fallen considerably”. The filing additionally contains a “Resolution”, by the voting members of the KCWA, issued on October 18, 2007, which reaffirms the KCWA’s intention to authorize the issuance of bonds to finance capital improvements and upgrades to the water system and to approve the refinancing of the KCWA’s outstanding \$28,460,000 General Revenue Bonds, 2001 and 2002 Series A.¹

In response to the application filing, the Division conducted a duly noticed public hearing on November 16, 2007. The hearing was conducted in the Division’s hearing room, located at 89 Jefferson Boulevard in Warwick. The following individuals entered appearances:

For the KCWA:	Joseph J. McGair, Esq.
For the Division’s Advocacy Section:	Leo J. Wold, Esq. Special Assistant Attorney General

The KCWA proffered one witness in support of its application. The witness was identified as Ms. Maureen E. Gurghigian, Managing Director at First Southwest Company. Ms. Gurghigian testified that First Southwest Company provides financial advisory services to issuers of municipal debt, and serves as the KCWA’s financial advisor in this matter. Ms. Gurghigian related that she has supervisory responsibility for First Southwest’s involvement with borrowings by the State of Rhode Island, numerous public agencies and 30 Rhode Island municipalities. Ms. Gurghigian testified that First Southwest’s

¹ KCWA Exhibit 1, “RESOLUTION OF THE KENT COUNTY WATER AUTHORITY TO AUTHORIZE THE ISSUANCE OF BONDS FOR CAPITAL EXPENDITURES AND TO AUTHORIZE THE ISSUANCE OF REFUNDING BONDS TO REFINANCE ALL OR A PORTION OF THE AUTHORITY’S OUTSTANDING 2001A [sic] AND 2002 SERIES A ISSUES”.

Rhode Island office assists clients with the origination of more than \$800 million in public financing issues each year. She noted that the firm serves approximately 2000 municipal issuers, including more than 400 in New England. According to the witness, last year First Southwest Company was involved in the issuance of more than \$30.8 billion in securities on behalf of its clients, including nearly \$21 billion as financial advisor.²

Ms. Gurghigian testified that through the instant filing the KCWA is seeking the authority to refinance a portion of the outstanding principal of its Series 2001 and 2002 Bonds “with a refunding bond issue...to take advantage of lower interest rates and lower the debt service requirements.”³ Ms. Gurghigian testified that the instant filing was prepared after her Company performed a financial analysis to determine the estimated debt service required to repay the issue and the savings resulting from the refunding.

Ms. Gurghigian related that currently the refunding is projected to refinance approximately \$5,135,000 of the outstanding principal of the 2001 bonds and approximately \$13,345,000 of the outstanding principal of the 2002 bonds, for a total of \$18,480,000 in refunding candidates. She explained that the total of the refunding candidates is lower than the total outstanding debt since the refunding has been sized to optimize savings. Ms. Gurghigian related that currently, the optimal refunding candidates for the 2001 and 2002 Bonds include those bonds maturing from July 15, 2014 through July 15, 2021, and

² KCWA Exhibit 1, Gurghigian Testimony, p.1.

³ Id., p.2

July 15, 2015 through July 15, 2023, respectively.⁴ Ms. Gurghigian testified that other bonds in the 2001 and 2002 Series would remain outstanding because “it is not economic to refinance those bonds at this time.”⁵

In the pre-filed testimony that accompanied the KCWA’s application, Ms. Gurghigian stated that the refunding bond par amount would total \$19,100,000 based upon a market premium of approximately \$660,000 for total sources of funds in the amount of approximately \$19,760,000. She noted that tax analysis regarding the treatment of the prior issue debt service reserve fund might result in the issuance of a slightly higher or lower amount.⁶ She identified the uses of the funds as follows:

- \$19,545,760 – Deposit to Refunding Escrow Fund
- \$70,000 – Estimated Costs of Issuance
- \$90,000 – Estimated Bond Insurance Premium
- \$55,000 – Projected Underwriters Discount

Ms. Gurghigian also related that the deposit to the aforementioned Escrow Fund would be invested in U.S. Government Securities to pay debt service and the call premium on the prior bonds until they are called on July 15, 2011 for the 2001 Bonds and July 15, 2012 for the 2002 Bonds. Ms. Gurghigian also noted that the current market rates would result in a payment of a premium to the KCWA, therefore the refunding “is currently projected to be slightly lower in par value than we would expect under different market

⁴ Id., p. 3.

⁵ Id.

⁶ Id., pp. 4-5.

conditions.”⁷ In her pre-filed testimony, Ms. Gurghigian related that since this factor could change, “it is recommended that the maximum par amount authorized be \$20,000,000.”⁸ However, during the hearing, Ms. Gurghigian testified that due to other variables that may ultimately affect the KCWA’s final borrowing needs, it is preferred that the Division authorize the KCWA to issue refunding bonds up to the full amount of the KCWA’s \$28,460,000 in outstanding 2001 and 2002 Series A Bonds.

Ms. Gurghigian also related that market rates for insured municipal bonds as of the close of business on September 10, 2007 were assumed. She related that at that time these rates ranged from 3.54% to 4.30% for bonds maturing from 2008 to 2023. Ms. Gurghigian testified that the “all inclusive interest cost”, after consideration of premium paid by investors and the cost of bond insurance and other costs of issuance is currently projected at approximately 4.16%, which she subsequently compared to an average interest cost of 5.15% on the prior bonds currently considered optimal refunding candidates. To permit a refinancing to move forward should market conditions change, Ms. Gurghigian recommended that the Division approve a maximum interest rate of 4.60%.⁹

Ms. Gurghigian testified that the approximate annual debt service for the proposed bond issue would range from \$880,000 to \$2.6 million in the current market, which she compared to a range of \$932,000 to \$2,675,000 on the prior

⁷ Id., p. 5.

⁸ Id.

⁹ Id., p. 6.

bonds. She related that this translates into fiscal year savings of approximately \$52,000 annually for 16 years. Ms. Gurghigian stated that total savings are projected at approximately \$860,000 over the life of the issue and represent about \$635,000 in net present value savings or 3.4% of the refunded principal.¹⁰ Ms. Gurghigian noted that a 3% net present value savings threshold is used in the industry for advance refundings “because tax laws limit issuers to one advance refunding for each issue of tax exempt debt.”¹¹

The Division’s Advocacy Section did not proffered any witnesses in this docket. After a review of the filing and a thorough cross-examination of the KCWA’s witness, the Advocacy Section stated for the record that it was satisfied from the evidence presented, that the KCWA had met the requisite burden of proof set forth in R.I.G.L. §39-3-15, et seq. and that the proposed refinancing was in the public interest.

FINDINGS

Predicated on a careful examination of the record in this matter, the Division finds that the KCWA’s application seeking authority to issue revenue bonds for the purpose of refinancing all or a portion of the KCWA’s \$28,460,000 in outstanding 2001 and 2002 Series A Bonds, is reasonable and in the best interest of ratepayers.

Now, therefore, it is

(19133) ORDERED:

¹⁰ Id.

¹¹ Id., pp. 6-7.

1. That the Kent County Water Authority's October 19, 2007 application, which seeks Division approval under R.I.G.L. §39-3-15, to issue refunding bonds for the purpose of refinancing all or a portion of the KCWA's \$28,460,000 in outstanding 2001 and 2002 Series A Bonds, 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.
3. That the Division hereby makes this approval contingent upon the KCWA'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.

DATED AND EFFECTIVE AT WARWICK, RHODE ISLAND ON NOVEMBER 19, 2007.


John Spirito, Jr., Esq.
Hearing Officer

APPROVED: 
Thomas F. Ahern
Administrator