

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

IN RE: City of Newport Water Division :
Application to Incur Long-Term Debt : Docket No. D-09-76

REPORT AND ORDER

On September 8, 2009, the City of Newport, acting by and through the Newport Water Division ("Newport Water") 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 \$3,600,000 as part of a Rhode Island Drinking Water State Revolving Fund ("DWSRF") loan from the Rhode Island Clean Water Finance Agency ("RICWFA"). The Newport Water application indicates that it seeks to borrow approximately \$3,600,000 from the RICWFA to finance distribution and other miscellaneous improvements to its water system. The application was filed in accordance with the requirements contained in Section 39-3-15 of the Rhode Island General Laws and Section 14 of the Division's *Rules of Practice and Procedure*.¹

In response to the application filing, the Division conducted a duly noticed public hearing on September 22, 2009. The hearing was

¹ The application was entered on the record as Newport Water Exhibit 1.

conducted in the Division's hearing room, located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances:

For Newport Water:	Joseph A. Keough, Jr., Esq.
For the Division's Advocacy Section:	Jon G. Hagopian, Esq. Special Assistant Attorney General

Newport Water proffered three witnesses in support of its application. The witnesses were identified as Ms. Julia Forgue, P.E., the Director of Utilities for the City of Newport; Ms. Maureen E. Gurghigian, Managing Director, First Southwest Company, 652 George Washington Highway, Lincoln, Rhode Island; and Mr. Harold J. Smith, Vice President of Raftelis Financial Consultants, Inc., 511 East Boulevard, Charlotte, North Carolina, a consulting firm specializing in the areas of water and wastewater finance and pricing.

Utilities Director, Julia Forgue was proffered as a supporting witness to discuss why Newport Water has requested approval to borrow approximately \$3,600,000 from the RICWFA to finance distribution and other miscellaneous improvements to the Newport Water system. Ms. Forgue testified that the borrowing will finance distribution main improvement projects in FY10 and engineering design costs for Newport Water's FY12 water main improvement project.²

In addition to the above-described projects, Ms. Forgue also informed the Division of a short-term borrowing that Newport Water is

² Newport Water Exhibit 1, Forgue Testimony, p. 2.

also presently undertaking. This second borrowing, which does not require Division approval, relates to a \$2,300,000 Bond Anticipation Note (BAN) that will be used to finance engineering and consulting services associated with capital improvements at Newport Water's two water treatment plants (Lawton Valley and Station One).

With respect to the \$3,600,000 DWSRF Loan, Ms. Forgue testified that \$3,300,000 of the borrowing will be used to fund construction of the water main improvement project pursuant to the design work for which Newport Water obtained funding in Division Docket D-07-15. She related that this includes the construction of approximately 2.5 miles of water main and appurtenances improvements throughout the distribution system. Ms. Forgue testified that the remaining \$300,000 of the loan will be used for engineering design costs for the next water main improvement project that is scheduled to start in FY12. Ms. Forgue indicated that the applications for these two project-specific borrowings have already been submitted to the RICWFA.³

With respect to the \$2,300,000 BAN borrowing, Ms. Forgue updated the Division on the construction of the new Lawton Valley treatment plant and the improvements being made to the Station One treatment facility. Ms. Forgue testified that while this work does not yet qualify for subsidized DWSRF borrowing, it is important for Newport Water to move forward on these projects. She related that Newport Water will eventually

³ Id.

roll this type of short-term borrowing into long-term subsidized loans through the DWSRF, which will require future Division approval. Ms. Forgue related that she is offering the background information on these projects in anticipation of Newport Water's plans to subsequently seek Division approval for long-term financing at a later time.⁴

As in previous related dockets, Ms. Maureen E. Gurghigian began her testimony by stating that First Southwest Company serves as financial advisor to many issuers of municipal debt in Rhode Island. She 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, including the city of Pawtucket. She testified that the firm currently serves more than 2000 municipalities and agencies, including more than 400 in New England.⁵

Ms. Gurghigian related that she has served as financial advisor to Newport Water in previous bond approval cases before the Division. She related that she is currently providing assistance to Newport Water with respect to the planned loan from the RICWFA. She testified that the proposed \$3,600,000 borrowing from the RICWFA is needed to finance improvements to Newport Water's water supply system. Ms. Gurghigian explained that of the \$3,600,000 loan amount, approximately \$3,300,000 will be available for project funds, and approximately \$212,000 will be set

⁴ *Id.*, pp. 3-6.

⁵ PWSB Exhibit 1, Gurghigian Testimony, p. 1.

aside in the debt service fund. She stated that an additional \$88,000 is allocated for costs of issuance and the RICWFA origination fee.⁶

In describing how the financing works, Ms. Gurghigian explained that pursuant to the Safe Drinking Water Act Amendments of 1996, Rhode Island has created a Drinking Water State Revolving Fund (“DWSRF”) administered by the RICWFA to provide financial assistance to water suppliers. She related that the fund uses federal capitalization grants and state matching funds to provide subsidized (25% below market rate) loans to water suppliers for qualifying projects listed on the Project Priority List maintained by the Rhode Island department of Health. Ms. Gurghigian explained that the RICWFA sells bonds in the public market and loans the proceeds to its drinking water borrowers pursuant to loan agreements. Ms. Gurghigian emphasized that the DWSRF is providing a significant portion of the funding for Newport Water’s capital program.⁷

Ms. Gurghigian testified that the term of the requested borrowing is 20 years. She explained that once the construction funds are fully drawn down, Newport Water will have 20 years to repay the loan. Ms. Gurghigian noted that the full term including the construction period is not expected to exceed 23 years.⁸ Ms. Gurghigian testified that for this year only, the loan will be structured as a blended rate loan with the added benefit that a significant portion will consist of “principal

⁶ *Id.*, pp. 2-3.

⁷ *Id.*, p. 3.

⁸ *Id.*, p. 3.

forgiveness” pursuant to the American Recovery and Reinvestment Act (ARRA). She related that of the \$3,600,000 loan amount, approximately \$800,000 is provided through ARRA principal forgiveness and the balance will be at the traditional subsidized rate of 25% off the current market rates. Ms. Gurghigian testified that based upon current market conditions, it is anticipated that the loan will not exceed a market rate of 5.56%, which, she related, would result in a projected blended subsidized rate of approximately 4.16% and a projected subsidized rate of 2.78% with the inclusion of the principal forgiveness portion.⁹

Ms. Gurghigian testified that this borrowing will be done when the RICWFA sells its revenue bonds for the DWSRF, which is anticipated to take place in October 2009. Ms. Gurghigian related that the RICWFA requires that all borrower approvals be in place prior to mailing the RICWFA Preliminary Official Statement, which she noted is scheduled for mailing on October 13, 2009. Ms. Gurghigian opined that Division approval must precede the execution of the loan agreement.¹⁰

Ms. Gurghigian additionally discussed the borrowing details related to Newport Water’s contemporaneous BAN borrowing. She noted that although Division approval is not mandated for this short-term borrowing instrument, Newport Water “is attempting to keep the Division apprised of its borrowings, especially since it is anticipated that the BAN will

⁹ Id.

¹⁰ Id., p. 3 and Transcript.

eventually be rolled over into a subsidized DWSRF loan, which will require Division approval.”¹¹

Ms. Gurghigian also proffered a debt service schedule with her pre-filed testimony. She testified that for the \$3,600,000 debt, annual debt service is expected to increase by approximately \$212,000 per year. She noted that for purposes of her debt service analysis, a market rate of 5.6% and a net subsidized rate of 2.78%, which includes 22% principal forgiveness under ARRA has been used for the \$3,600,000 DWSRF borrowing.¹²

Mr. Harold Smith testified that the proposed borrowing, totaling \$3,600,000, would not have any impact on Newport Water’s rates. He related that Newport Water’s current rates, approved in PUC Docket No 4025, were set to support the debt service resulting from the proposed borrowings.¹³ Mr. Smith additionally testified that Newport Water’s current rates also support the debt service associated with its BAN borrowing.¹⁴

The Division’s Advocacy Section did not present any witnesses in this case. It did, however, proffer a memorandum from a consultant that was retained by the Advocacy Section to evaluate the proposed borrowings.¹⁵ The consultant, Mr. Thomas S. Catlin, a principal in the

¹¹ *Id.*, pp. 4-5.

¹² *Id.*, p. 5 and Schedule MG-1.

¹³ *Id.*, Smith Testimony, p. 2.

¹⁴ *Id.*

¹⁵ Advocacy Section Exhibit 1.

consulting firm of Exeter – Consulting Economists, stated in the memorandum that after reviewing the application filing, he concurred with Newport Water’s statement that the allowance for debt service included in Newport Water’s rate is sufficient to cover the projected debt service associated with both the \$3,600,000 borrowing and the planned \$2,300,000 BAN borrowing.

The Advocacy Section subsequently stated for the record that it was satisfied from the evidence presented, that Newport Water 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 instant application request is reasonable and in the best interest of ratepayers.

Now accordingly, it is

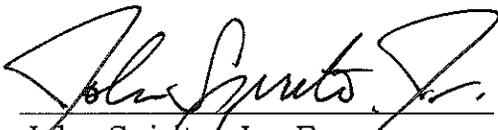
(19769) ORDERED:

1. That the September 8, 2009 application, filed by the City of Newport, acting by and through the Newport Water Division, which seeks Division approval, under R.I.G.L. §39-3-15, to enter into long-term debt and issue revenue bonds in an amount not to exceed \$3,600,000 for the purpose of financing distribution

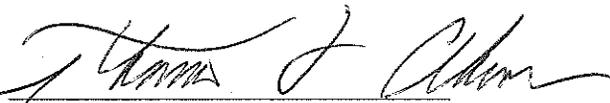
and other miscellaneous improvements to its water system, is hereby approved as filed.

2. That the Division hereby makes this approval contingent upon the Newport Water Division'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 September 23, 2009.



John Spirito, Jr., Esq.
Hearing Officer

APPROVED: 

Thomas F. Ahern
Administrator