

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

IN RE: Pawtucket Water Supply Board :  
Application To Issue Bonds In An : Docket No. D-09-84  
Amount Not To Exceed \$5,935,000 :

**REPORT AND ORDER**

On September 3, 2009, the Pawtucket Water Supply Board ("PWSB"), 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 \$5,935,000 as part of a Rhode Island Drinking Water State Revolving Fund ("DWSRF") loan from the Rhode Island Clean Water Finance Agency ("RICWFA"). The application was filed in accordance with the requirements contained in Rule 14 of the Division's Rules of Practice and Procedure and Section 39-3-15 of the Rhode Island General Laws.

The PWSB application indicates that it seeks to borrow approximately \$5,935,000 from the RICWFA to finance distribution and other miscellaneous improvements to the PWSB System.<sup>1</sup>

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<sup>1</sup> The Division notes that the instant filing was preceded by four similar filings made on December 4, 2003, February 6, 2004, January 7, 2005 and December 19, 2006. In the December 4, 2003 filing, the PWSB sought Division authority to borrow approximately \$30 million from the RICWFA to "defease" or "prepay" its then current debt obligations to the Pawtucket Public Buildings Authority. The Division approved this filing on December 16, 2003, through Report and Order No.17635. In the February 6, 2004 filing, the PWSB sought Division authority to borrow approximately \$43 million from the RICWFA to finance improvements to the PWSB's water system. The Division approved this filing on February 27, 2004, through Report and Order No.17764. In the January 7, 2005 filing, the PWSB sought Division authority to borrow approximately \$35 million from the RICWFA to finance treatment plant improvements, sedimentation facilities replacement, cleaning and relining of transmission lines, construction projects in accordance with the PWSB's Capital Improvement

In response to the application filing, the Division conducted a duly noticed public hearing on September 22, 2009. The hearing was conducted in the Division's hearing room, located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances:

For the PWSB: Joseph A. Keough, Jr., Esq.

For the Division's  
Advocacy Section: Jon G. Hagopian, Esq.  
Special Assistant Attorney General

The PWSB proffered three witnesses in support of its application. The witnesses were identified as Mr. James L. DeCelles, the PWSB's Chief Engineer; Ms. Maureen E. Gurghigian, Managing Director, First Southwest Company, 652 George Washington Highway, Lincoln, Rhode Island; and Mr. Christopher P.N. Woodcock, President of Woodcock & Associates, Inc., 18 Increase Ward Drive, Northborough, Massachusetts, a consulting firm specializing in water and wastewater rate and financial studies.

Chief Engineer, James DeCelles was proffered as a supporting witness to discuss why the PWSB has requested approval to borrow approximately \$5,935,000 from the RICWFA to finance distribution and other miscellaneous improvements to the PWSB System. Mr. DeCelles testified that this project will consist of the replacement of approximately 35,000 feet of existing water main.

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Plan, and all attendant expenses, including, but not limited to the design build contract for the treatment plant and engineering costs. The Division approved this previous filing on February 2, 2005, through Report and Order No.18134. In the December 19, 2006 filing, the PWSB sought Division authority to borrow approximately \$1.9 million from the RICWFA to finance improvements to the PWSB System, including, but not limited to, the purchase of approximately 23,000 meter interface units. Subsequently, however, the PWSB decided to withdraw this application, which was approved by the Division on January 17, 2007, through Report and Order No.18831.

Mr. DeCelles related that the existing mains, which are mainly unlined cast iron, will be replaced with cement lined ductile iron pipe. The witness explained that the replacement of this pipe is part of the PWSB's overall pipe replacement program that will be completed in 2015, at which point all piping in the PWSB transmission and distribution system will be either lined cast iron or line ductile iron. Mr. DeCelles opined that since the lined pipe is less susceptible to iron buildup on the pipe wall which causes water quality problems in the distribution system, there will also be significant improvement in the water quality as a result of the project.<sup>2</sup>

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.<sup>3</sup>

Ms. Gurghigian related that she has served as financial advisor to the PWSB in previous bond approval cases before the Division. She related that she is currently providing assistance to the PWSB with respect to the planned loan from the RICWFA. She testified that the proposed \$5,935,000 borrowing from the RICWFA is needed to finance improvements to the PWSB's water supply

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<sup>2</sup> PWSB Exhibit 1, DeCelles Testimony, pp. 1-2.

<sup>3</sup> PWSB Exhibit 1, Gurghigian Testimony, p. 1.

system. Ms. Gurghigian explained that of the \$5,935,000 loan amount, approximately \$5,420,000 will be available for project funds, and approximately \$353,000 will fund the Debt Service Reserve Fund as required by the PWSB's Indenture of Trust. She stated that an additional \$159,350 is allocated for costs of issuance and the RICWFA origination fee.<sup>4</sup>

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 the PWSB's capital program.<sup>5</sup>

Ms. Gurghigian testified that the term of the requested borrowing is 20 years. She explained that once the construction funds are fully drawn down, the PWSB 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.<sup>6</sup> Ms. Gurghigian testified that for this year only, the loan will be structured as a

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<sup>4</sup> Id., pp. 2-3.

<sup>5</sup> Id., p. 2.

<sup>6</sup> Id., p. 3.

blended rate loan with the added benefit that a significant portion will consist of "principal forgiveness" pursuant to the American Recovery and Reinvestment Act (ARRA). She related that of the \$5,935,000 loan amount, approximately \$1,385,134.60 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 5.769%, which, she related, would result in a projected blended subsidized rate of approximately 3.83% and a projected subsidized rate of less than 1.5% with the inclusion of the principal forgiveness portion.<sup>7</sup>

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.<sup>8</sup>

Ms. Gurghigian also proffered a debt service schedule with her pre-filed testimony. She testified that for the \$5,935,000 debt, annual debt service is expected to increase by approximately \$354,000 per year. She noted that for purposes of her debt service analysis, a market rate of 5.769% and a

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<sup>7</sup> Id.

<sup>8</sup> Id., p. 3 and Transcript.

subsidized rate of 3.83% and approximately \$1,385,143 principal forgiveness under ARRA have been used.<sup>9</sup>

Mr. Christopher P.N. Woodcock was primarily proffered to confirm that the PWSB currently has sufficient rates to service the debt service associated with this borrowing. Mr. Woodcock based his opinion on the debt service schedule provided by Ms. Gurghigian, “and assuming the interest rates provided in her testimony, the combination of the PWSB’s debt service funding, debt service stabilization and IFR funding will sufficiently cover the PWSB’s existing debt service obligations and the proposed borrowing, as well as the coverage requirements.”<sup>10</sup>

The Division’s Advocacy Section did not present any witnesses in this docket. After a thorough cross-examination of the PWSB’s witnesses, the Advocacy Section stated for the record that it was satisfied from the evidence presented, that the PWSB 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 the PWSB’s ratepayers.

Now, therefore, it is

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<sup>9</sup> Id., p. 4 and Schedule MG-1.

<sup>10</sup> PWSB Exhibit 1, Woodcock Testimony, p. 3.

(19770) ORDERED:

1. That the September 3, 2009 application, filed by the Pawtucket Water Supply Board, 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 \$5,935,000 as part of a Rhode Island Drinking Water State Revolving Fund ("DWSRF") loan from the Rhode Island Clean Water Finance Agency, is hereby approved as filed.
2. That the Division hereby makes this approval contingent upon the Pawtucket Water Supply Board'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