

Engineer and General Manager; Ms. Jeanne Bondarevskis, the PWSB's Director of Finance; and Ms. Maureen E. Gurghigian, Managing Director, First Southwest Company, 652 George Washington Highway, Lincoln, Rhode Island.

Ms. Pamela Marchand testified that the PWSB is requesting authorization to enter into long term debt associated with stimulus funds available under the American Recovery and Reinvestment Act of 2009 ("ARRA"), through the Rhode Island Clean Water Finance Agency ("RICWFA"). Ms. Marchand explained that the RICWFA has received \$26.3 million in ARRA funds for "Clean Water" and \$19.5 million for "Drinking Water" projects.¹ She related that RICWFA will use these funds, in combination with other funds generated by the RICWFA, to provide a larger amount to be used to leverage the ARRA funds into bonds. Ms. Marchand testified that the \$19.5 million allotted for Drinking Water projects will result in approximately \$44 million in loans, allowing the RICWFA to provide funding options for more projects. Ms. Marchand also emphasized that the projects funded with ARRA funds will have a portion of their principal forgiven, which the PWSB is projecting at 22.43% in the instant borrowing.²

Ms. Marchand testified that the PWSB plans to fund the following projects through this bond issuance:

¹ PWSB Exhibit 1, Marchand pre-filed testimony, p. 2.

² Id., pp. 2-3.

- *“\$890,000: Mlog leak detection sensors to detect leaks on water mains and services. These devices are installed on every 5 to 10 services within the distribution system and they record (i.e., log) sounds caused by leaks. The data is collected by drive-by radio read, at the same time meter data is collected.”*
- *“\$2,000,000: Purchase of approximately 12,000 water meters with leak detection and radio read capabilities. We are looking at installing the W60 or the W100 ERT’s (i.e., transmitters) when available that have the capability to convert to a ‘fixed network’ system. A “fixed network” polls for readings from a central station, as often as needed.”*
- *“\$360,000: Purchase of approximately 1,200 hydrant locks to prevent unauthorized use of water. Providence Water has had considerable problems with hydrants opened in the summer during hot weather and by street sweepers filling trucks. This disturbs the flow of the water and causes water quality problems, as well as a significant loss of water and revenue.”*
- *“\$10,000,000: Replacement and/or rehabilitation of water mains in conjunction with lead service replacements.”*

Ms. Marchand related that the first three listed projects, above, will be funded with a five (5) year loan; and the fourth project, above, with a twenty (20) year loan.³

Ms. Jeanne Bondarevskis testified that the PWSB is taking advantage of the available ARRA funds to continue with projects that are already identified in the PWSB's approved Infrastructure Replacement (IFR) program. She related that the 22.43% principal forgiveness, coupled with the customary 25% interest rate reduction that RICWFA provides, "made this a very cost conscious way of getting work done that Providence Water would have done anyway."⁴ Ms. Bondarevskis added that the PWSB will not need to seek an increase in rates from the Public Utilities Commission to pay the debt service on these particular projects.⁵

Ms. Bondarevskis testified that the PWSB's Board has issued two resolutions approving the borrowing. She also testified that the Board has requested approval of a Bond Ordinance from the Providence City Council. She related that the Ordinance was submitted on July 23, 2009 to the City Clerk. Ms. Bondarevskis proffered copies of the resolutions and submitted Ordinance.⁶ Ms. Bondarevskis also confirmed that the State Department of Health has included the PWSB projects on its "FY2010 Project Priority List."⁷

³ Id., pp. 4-5.

⁴ PWSB Exhibit 1, Bondarevskis pre-filed testimony, p. 3.

⁵ Id.

⁶ Id., p. 4 and attached Exhibits A and B.

⁷ Id., p. 4.

Ms. Bondarevskis next discussed what impact this long-term debt would have on its ratepayers. She described the instant borrowing proposal as a “medium sized bond issue for Providence Water.” She related that the PWSB’s ratepayers benefit from the borrowing for two reasons, specifically, the principal forgiveness component, and the fact that no interest will be paid on the amount forgiven. She added that the ratepayers also benefit from the use of Drinking Water State Revolving Funds, “which provides subsidized (25% below our market rate) low interest rates.”⁸

Ms. Bondarevskis next presented a pro forma capital structure showing the effects of the security issue. The related exhibit reflected that the PWSB’s total capitalization would increase to about \$58 million after the bond issue.⁹ The exhibit further shows that the PWSB’s debt to total assets ratio will be 22.25%, and debt to net utility plant will be 32.58%. Ms. Bondarevskis opined that “this is still well below 38%, which is the Standard and Poor’s median for ‘A’ rated credits...”¹⁰

Ms. Bondarevskis testified that after learning of the availability of stimulus funding, the PWSB requested funding through the Rhode Island Clean Water Finance Agency (“RICWFA”). She related that the RICWFA Board approved the borrowing and sent the PWSB a commitment letter on August 28, 2009.¹¹

⁸ Id., p. 5.

⁹ Id., p. 5 and attached “Exhibit D.”

¹⁰ Id.

¹¹ Id., p. 6.

Ms. Bondarevskis included several documents with her pre-filed testimony as additional support for the proposed borrowing. These documents included: (1) PWSB's Resolutions authorizing the borrowing and future reimbursement of expenditures, (2) approved Bond Ordinance (without draft Indentures), (3) DOH's Project Priority List, (4) a pro-forma capitalization schedule, (5) RICWFA's commitment letter, (6) RICWFA's loan policies and procedures, (7) a comparison of interest rates and draft debt service schedules, and (8) DOH Rules and Regulations.¹² After presenting these documents, Ms. Bondarevskis related that the Loan Agreement and Bond Indenture documents are still being prepared and will be available when finalized.

Ms. Bondarevskis next summarized the terms and conditions attached to the instant borrowing. She testified that the City of Providence, acting for the PWSB, would borrow up to \$13,250,000 under the borrowing proposal. She related that a portion of the borrowing would be used for the costs of issuance, debt service reserve (equal to one year's maximum debt service), and loan origination fees (equal to 1% or \$132,500).¹³ Ms. Bondarevskis indicated that "based on the estimated debt service schedules provided by...First Southwest, total interest payments will vary from approximately \$2,531,802 to \$3,342,437, depending on the final interest rate (and the amount of principal forgiveness, since we will not pay interest on forgiven

¹² *Id.*, pp. 6-7 and attached Exhibits A through H.

¹³ *Id.*, pp. 8-9.

principal).¹⁴ Regarding the interest rate, which Ms. Bondarevskis expected would be approximately 25% below the PWSB's projected market rate at the closing date, she testified that First Southwest "assumed subsidized rates of between 1.435% and 3.43%."¹⁵ Ms. Bondarevskis also testified that the term of the loan would be approximately twenty (20) years for the distribution mains, and approximately five (5) years for the efficiency projects. She explained that the varied terms were selected because a twenty (20) year term is consistent with the service life of the distribution system improvements planned under the proposed borrowing. In the case of the efficiency projects, she explained that the useful life will be shorter, and therefore the PWSB chose the shorter five (5) year period to match the benefit with the cost.¹⁶

In her final comments, Ms. Bondarevskis requested expedited consideration from the Division. She related that the RICWFA "is ready to issue a pooled bond and is waiting for Division approval of Providence Water's request in order to price and close."¹⁷

Ms. Maureen Gurghigian testified that First Southwest Company provides financial advisory services to issuers of municipal debt, primarily in the State of Rhode Island. She related that she has supervisory responsibility for First Southwest's involvement with borrowings by the State

¹⁴ *Id.*, p. 9.

¹⁵ Ms. Bondarevskis testified that the interest rate will not be fixed until such time as the PWSB receives authorization to proceed and RICWFA prices their bonds. *Id.*, p. 10.

¹⁶ *Id.*, pp. 9-10.

¹⁷ *Id.*, p. 12.

of Rhode Island, numerous public agencies and 30 Rhode Island municipalities, including the PWSB. She related that First Southwest Company serves approximately 2000 municipal issuers, including more than 400 in New England. She added that the Rhode Island office assists clients with the origination of more than \$800 million in public financing issues each year.¹⁸

Ms. Gurghigian related that she is providing assistance to the PWSB and its financing team with respect to the issuance of debt through the RICWFA. She related that her role in this docket is to provide information on the PWSB's debt service requirements for the proposed borrowing and to respond to related questions.¹⁹

Ms. Gurghigian next described the financing structure of the proposed \$13,250,000 borrowing. She explained that the financing structure involves the use of subsidized loans from the RICWFA secured solely by water rates and charges. She related that the DWSRF, which is administered by the RICWFA, 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 DOH.

Ms. Gurghigian testified that in this borrowing, the term is approximately 20 years for about \$10,000,000 and approximately 5 years for for the balance of the loan. Ms. Gurghigian related that once the

¹⁸ Id., Gurghigian pre-filed testimony, p. 1.

¹⁹ Id., p. 2.

construction funds are fully drawn down, the PWSB will have 20 years to repay about \$10,000,000 of the loan and approximately 5 years to repay the balance. She explained that the full term, including the construction period is not expected to exceed 23 years.²⁰ Ms. Gurghigian noted that for the first year, the loan will be structured as a blended loan with the added benefit that a significant portion will consist of 'principal forgiveness' pursuant to ARRA.

Ms. Gurghigian testified that the total amount of principal forgiveness for the State of Rhode Island represents 50% of the ARRA Drinking Water Funds or approximately \$9,250,000 in the aggregate. Ms. Gurghigian related that each borrower will receive a proportional share of that amount depending upon the total amount of loans funded in the issue. She related that currently, the RICWFA expects to forgive approximately 22.43% of each loan. She testified that of the \$13,250,000 PWSB loan amount, approximately \$2,972,000 will be forgiven under ARRA. Ms. Gurghigian related that the balance will be at the traditional subsidized rate of 25% off the current market rates. She testified that based on current market conditions, it is anticipated that the loan will not exceed a market rate of 4.82%, which would result in a projected subsidized rate of approximately 3.43% and a projected 'blended' subsidized rate of less than 1.0% with the inclusion of the estimated principal forgiveness portion.²¹

²⁰ Id., p. 3.

²¹ Id.

Regarding the issue of how the funds will be disbursed, Ms. Gurghigian related that \$11,940,000 will be available for project funds, approximately \$1,110,000 will be set aside in the debt service reserve fund and approximately \$200,000 is allocated for costs of issuance, including rating agency fees, bond counsel, financial advisor and trustee fees, and the RICWFA origination fee.²²

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.²³ The consultant, Mr. Thomas S. Catlin, a principal in the consulting firm of Exeter – Consulting Economists, stated in the memorandum that after reviewing the application filing, he concurred with the PWSB's statement that the allowance for debt service included in the PWSB's rates is sufficient to cover the projected debt service associated with the planned \$13,250,000 borrowing.

The Advocacy Section subsequently 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.

²² Id.

²³ Advocacy Section Exhibit 1.

FINDINGS

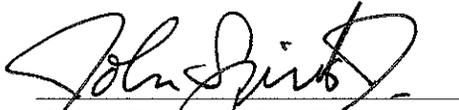
Predicated on a careful examination of the record in this matter, the Division finds that the PWSB's application seeking authority to borrow from the Drinking Water State Revolving Fund an amount not to exceed \$13,250,000, is reasonable and in the best interest of ratepayers.

Now, therefore, it is

(19781) ORDERED:

1. That the Providence Water Supply Board's September 22, 2009 application, which seeks Division approval under R.I.G.L. §39-3-15, to borrow from the Drinking Water State Revolving Fund an amount not to exceed \$13,250,000, 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 PWSB'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 October 8, 2009.



John Spirito, Jr., Esq.
Hearing Officer

Approved: 

Thomas F. Ahern
Administrator