

**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-10-04

**REPORT AND ORDER**

On January 20, 2010, 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 approval to enter into long-term debt and issue revenue bonds for an amount not to exceed \$2,000,000 from the Rhode Island Clean Water Finance Agency (“RICWFA”). 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 February 5, 2010. 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: Joseph A. Keough, Jr., Esq.

For the Division’s  
Advocacy Section: Ladawn S. Toon, 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, Managing Director, 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 \$2 million at an interest rate not to exceed a market rate of 4.816 percent. Ms. Giebink related that “this loan is being subsidized with federal stimulus funds authorized under the American Recovery and Reinvestment Act (ARRA).” She testified that as a result, a portion of the loan will be at the traditional subsidized rate and a portion will be principal forgiveness. Ms. Giebink testified that the combined effect of these factors is a projected blended subsidized rate of approximately 1.226 percent.<sup>1</sup>

Ms. Giebink testified that the requested loan is from the RICWFA and can be used to fund the construction of the Field’s Point Nitrogen Removal Facilities, which is already under contract. Ms. Giebink also noted that the Division approved a similarly structured loan of \$55 million for this same project in August 2009.<sup>2</sup> In support of the NBC’s petition, Ms. Giebink identified fifteen similar loans from the RICWFA totaling \$406,169,709 previously approved by the Division.<sup>3</sup>

Ms. Giebink next testified that other than the instant petition for approval from the Division, the NBC has met all of the other requirements needed to complete the proposed transaction. She related that on January 20, 2010 the NBC’s Board of Commissioners passed a resolution authorizing the transaction. She added that on January 15, 2010 NBC received notification from the RICWFA that the NBC’s financing application was approved. Ms.

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<sup>1</sup> NBC Exhibit 1, Giebink Testimony, p. 2.

<sup>2</sup> Id.

<sup>3</sup> Id. and Transcript

Giebink also testified that the NBC's current long-term credit rating with Standard and Poor's is AA-.<sup>4</sup>

When asked whether the NBC's current rates generate sufficient revenue to meet the debt service payments associated with the instant loan, Ms Giebink testified as follows:

“Yes. Given the heavily subsidized nature of this loan, NBC's approved rates generate sufficient revenue to meet the annual debt service and debt service coverage requirements...”<sup>5</sup>

Ms. Maureen E. Gurghigian testified that for more than 62 years, First Southwest Company has served 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.<sup>6</sup>

Ms. Gurghigian related that she has served as financial advisor to the NBC for the past 20 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 (“VRDB”) issued in April 2004, the \$45 million Open Market Revenue Bond Issue in August 2005, a \$42.5 million issue in February 2007, the refunding of the 2004 VRDB issue in 2008, and the \$55 million ARRA subsidized borrowing from the RICWFA reviewed by the Division

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

<sup>5</sup> Id., p. 4.

<sup>6</sup> Id., Gurghigian Testimony, p. 1.

in August 2009. She related that her services have included the facilitation of the credit rating process, loan structuring and other functions.<sup>7</sup>

As background, Ms. Gurghigian related that in September 2009, the Division approved NBC's borrowing of \$55 million from the RICWFA that was subsidized with federal funding through ARRA. She explained that of the \$55 million loan amount, \$8,302,113 is ARRA principal forgiveness and the balance is at the traditional subsidized rate of 1/3 of the market rate. She related that as a result of these two factors, as well as historically low interest rates, the subsidized yield on the loan is 0.877%.<sup>8</sup>

Ms. Gurghigian testified that the NBC has the opportunity to borrow an additional \$2 million through this program. She related that the additional funds are available because a different borrower, due to unforeseen circumstances, will not be able to meet certain ARRA requirements.<sup>9</sup>

Ms. Gurghigian testified that the subsidized yield on the loan is projected not to exceed 1.226%, which reflects principal forgiveness of \$301,895 and a market yield of 4.816%. She added that since this loan was structured when the original closing occurred in September, the NBC will assume the principal repayment schedule of the original borrower. Ms. Gurghigian related that the projected subsidized yield is slightly higher on this loan because the projected market yield is approximately 60 basis points higher.<sup>10</sup>

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<sup>7</sup> Id., p. 2.

<sup>8</sup> Id., pp. 2-3.

<sup>9</sup> Id.

<sup>10</sup> Id., p. 3.

During the hearing, the NBC additionally proffered its bond counsel, Norman G. Benoit, Esq., to answer some cross-examination questions concerning the loan's structure and related bond documents. Mr. Benoit similarly testified that this loan is similar to the \$55 million loan that was approved by the Division in August 2009.<sup>11</sup>

The Division's Advocacy Section did not present any witnesses in this docket. Alternatively, however, the Advocacy Section proffered a memorandum from Mr. Thomas S. Catlin, a consulting economist who specializes in public utility regulation. In the memorandum, Mr. Catlin indicates that he had reviewed the filing and agrees that the NBC has a sufficient debt service allowance in rates, coupled with available "principal forgiveness" ARRA funds, to meet the anticipated debt service on this new bond issue.<sup>12</sup> 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, the Division finds that the NBC's application seeking approval to enter into long-term debt and issue revenue bonds for an amount not to exceed \$2,000,000 from the Rhode Island Clean Water Finance Agency, is reasonable and in the best interest of ratepayers.

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<sup>11</sup> See transcript.

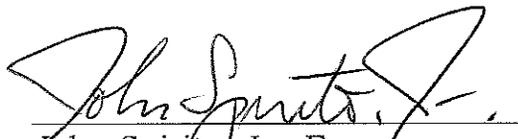
<sup>12</sup> Advocacy Section Exhibit 1.

Now, therefore, it is

(19899) ORDERED:

1. That the Narragansett Bay Commission's January 20, 2010 application, seeking approval to enter into long-term debt and issue revenue bonds for an amount not to exceed \$2,000,000 from the Rhode Island Clean Water Finance Agency, 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 FEBRUARY 5, 2010.

  
John Spirito, Jr., Esq.  
Hearing Officer

APPROVED:   
Thomas F. Ahern  
Administrator