

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

IN RE: Providence Water Supply Board :
Application for Authority to : Docket No. D-12-5
Issue Debt :

REPORT AND ORDER

On April 6, 2012, the Providence Water Supply Board (“PWSB”) filed an application with the Rhode Island Division of Public Utilities and Carriers (“Division”) seeking authority to borrow from the Clean Water State Revolving Fund an amount not to exceed \$10,000,000. The application was filed in accordance with the requirements contained in Section 39-3-15 of the Rhode Island General Laws and Rule 14 of the Division’s *Rules of Practice and Procedure*.

In its filing, the PWSB states that it plans to borrow from the Rhode Island Clean Water Finance Agency (“RICWFA”) in an amount not to exceed \$10,000,000 for the acquisition of land at an interest rate not to exceed 5%. The PWSB notes that the contemplated land purchases are needed to protect the water supply. The filing further states that the security for the loan is through a special revenue pledge of the Water Quality Protection Fund. Specifically, the loan will be secured on a subordinate basis by the PW Enterprise Fund Revenues under the PWSB indenture.¹

¹ PWSB Exhibit 1.

In response to the application filing, the Division conducted a duly noticed public hearing on April 27, 2012. 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:	Michael R. McElroy, Esq.
For the Division's Advocacy Section:	Leo J. Wold, Esq. Assistant Attorney General

The PWSB proffered Ms. Jeanne Bondarevskis, the PWSB's Director of Finance, as its primary supporting witness. Ms. Bondarevskis submitted pre-filed direct testimony in support of the PWSB's filing. Ms. Bondarevskis began her testimony by relating that the PWSB is uncertain whether R.I.G.L. §39-3-15 actually applies in this case "as the source of revenues to repay the debt is Water Quality Protection Fund revenue, not rate revenue." Despite this lack of certainty, however, Ms. Bondarevskis related that the PWSB decided to make the instant filing with the Division, "in an abundance of caution."²

Ms. Bondarevskis testified that it is the policy of the PWSB to acquire property or property development rights within the watershed area in order to protect the Scituate Reservoir complex. She explained that in 1989, the Water Quality Protection Charge was enacted by the General Assembly 'for the purpose of protecting the quality and safety of the public supply of water.' Ms. Bondarevskis testified that the PWSB administers its own Water

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

Quality Protection Fund, and that a minimum of 55% of the funds have to be spent on the acquisition of land, or the payment of the debt service for the acquisition of land. Ms. Bondarevskis added that the PWSB also has \$5 million from a tax refund and a tax treaty with the Town of Scituate, which the Public Utilities Commission has authorized the PWSB to utilize to acquire land in Scituate. Ms. Bondarevskis related that through the use of its Water Quality Protection Fund and the \$5 million tax refund from Scituate, the PWSB has purchased approximately 60 parcels totaling nearly 3,000 acres.³

Ms. Bondarevskis testified that because several additional properties have recently become available, and because property values and interest rates are presently very low, the PWSB would like to borrow additional funds “to maximize the quantity of watershed land that we can purchase, at minimal cost.”⁴ Ms. Bondarevskis testified that prior bond issues related to the Water Quality Protection Fund are being paid off, and this provides a source of funds for new debt. She emphasized that the PWSB’s Water Quality Protection Fund will support the debt service on this issue and that the borrowing will not affect current regulated water rates.⁵ She added that the PWSB is very close to finalizing the bond and is seeking Division approval to complete the process.

³ Id., pp. 2-3.

⁴ Id., p. 3.

⁵ Id.

Ms. Bondarevskis testified that the PWSB's Board issued a resolution on March 16, 2011 approving the borrowing; and that the Providence City Council approved a Bond Ordinance on November 22, 2011. Ms. Bondarevskis proffered copies of the resolution and Bond Ordinance.⁶ Ms. Bondarevskis also confirmed that the State Department of Health has included the PWSB land acquisition project on its "FY2012 Project Priority List."⁷

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 \$63 million after the bond issue.⁸ The exhibit further shows that the PWSB's debt to total assets ratio will be 20.62% and debt to net utility plant will be 26.12% after this issue. Ms. Bondarevskis opined that "this is still well below 38%, which is the Standard and Poor's median for 'A' rated credits..."⁹

Ms. Bondarevskis testified that the PWSB requested funding through the RICWFA and that its application was approved on October 17, 2011.¹⁰ She also related that the RICWFA will provide the loan in three phases of \$3 million, \$4 million and \$3 million.¹¹

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

⁷ Id., p. 4 and attached Exhibit C.

⁸ Id., p. 5 and attached "Exhibit D."

⁹ Id.

¹⁰ Id., and attached Exhibit E.

¹¹ Id.

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 \$10,000,000 under the borrowing proposal. She related that a portion of the borrowing would be used for the costs of issuance (estimated at approximately \$125,000), debt service reserve (equal to one year's maximum debt service), and loan origination fees (equal to 1% or \$100,000).¹² Ms. Bondarevskis indicated that "based on the estimated debt service schedules provided by... First Southwest, total interest payments... will vary from approximately \$2,866,040 to \$3,389,042... depending on the final interest rate."¹³ Regarding the interest rate, which Ms. Bondarevskis expected would be approximately 33% below the PWSB's projected market rate at the closing date, she testified that First Southwest "assumed subsidized rates of between 2.587% and 3.368%."¹⁴ Ms. Bondarevskis also testified that the term of the loan would be approximately twenty (20) years.¹⁵

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."¹⁶

¹² Id., p. 6.

¹³ Id., p. 7.

¹⁴ 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. 8.

¹⁵ Id., p. 7.

¹⁶ Id., p. 10.

Additionally, though she did not proffer pre-filed direct examination in this docket, Ms. Maureen E. Gurghigian, Managing Director, First Southwest Company, 652 George Washington Highway, Lincoln, Rhode Island, also appeared in support of the PWSB's filing. Ms. Gurghigian serves as financial advisor to the PWSB in bond approval cases before the Division. Ms. Gurghigian was offered by the PWSB to answer any Division questions associated with the instant borrowing.

The Division's Advocacy Section did not present any witnesses in this case. After a brief 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 PWSB's application seeking authority to borrow from the Clean Water State Revolving Fund an amount not to exceed \$10,000,000, is reasonable and in the best interest of ratepayers.

Now, therefore, it is

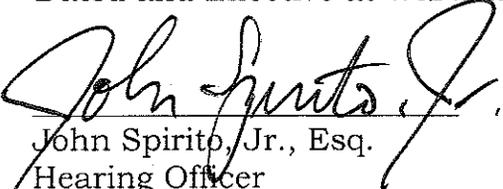
(20714) ORDERED:

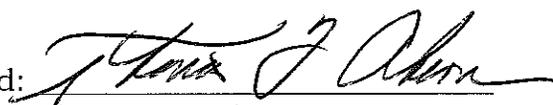
1. That the Providence Water Supply Board's April 6, 2012 application, which seeks Division approval under R.I.G.L. §39-3-15, to borrow from

the Clean Water State Revolving Fund an amount not to exceed \$10,000,000, 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.

Dated and Effective at Warwick, Rhode Island on April 30, 2012.


John Spirito, Jr., Esq.
Hearing Officer

Approved: 
Thomas F. Ahern
Administrator