

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 \$25.75 million that will be used to support borrowings from the RICWFA for the funding of NBC's capital improvement program. Ms. Giebink explained that this revenue bond issuance is a single bond series comprised of two separate loans. She related that one loan is for \$25 million with a traditional interest rate subsidy as well as a principal forgiveness component related to 'green' projects. Ms. Giebink testified that the projected market interest is 4.028%, with a principal forgiveness of \$354,201.75, resulting in an effective rate of 2.461%.¹

Ms. Giebink testified that the second loan is for \$750,000 and was originally intended for a different borrower that was not able to use the funds. She related that because the \$750,000 loan is related to the American Recovery and Reinvestment Act (ARRA), it must be tracked separately by the RICWFA and treated as a separate loan. Ms. Giebink noted that the market rate on this loan is 0.920% with an effective rate of 0.610%.²

Ms. Giebink also testified that in order to minimize the annual trustee fees associated with each bond series, the NBC's bond counsel proposed that the revenue bond issuance be structured as a single series with the \$750,000 loan as the first maturity in and the \$25 million as the second through final

¹ NBC Exhibit 1, Giebink Testimony, pp. 1-2.

² Id., p. 2.

maturities. On an aggregate basis, the market rate for the revenue bond series is 4.015% with an effective yield of 2.454%.³

Ms. Giebink added that final debt service schedules will be available shortly after the closing in June, 2012 and will be forwarded to the Division once they are available.⁴ She also stated that the Division has approved numerous similar loans from the RICWFA totaling \$458,169,709.⁵

Ms. Giebink testified that the NBC's authorizing resolution provides that the proceeds of this loan may be used for:

*"... financing the acquisition, design, evaluation, inspection, construction, improvement, installation, cleaning, rehabilitation, furnishing and equipping of: the Phase I Combined Sewer Overflow (CSO) Facilities, the Phase II CSO Facilities, the Field's Point Wastewater Treatment Facility Nitrogen Removal Facilities, Bucklin Point Biogas Reuse, Field's Point Wind Turbines, the upgrade of the Field's Point Operations Building and other miscellaneous improvements at various locations, the Bucklin Point Wastewater Treatment Facility Nitrogen Removal Facilities, the Bucklin Point Wastewater Treatment Facility Improvements, Floatables Control Facilities, the Regulatory Compliance Building, NBC Fire Code Compliance, New IM Facilities, System-Wide Facilities Plan, the Omega and Central Avenue Pump Stations and Commission Interceptors, and, other projects of the Commission."*⁶

Ms. Giebink additionally related that some of the loan proceeds would also be used to pay RICWFA fees and bond issuance costs.⁷

Ms. Giebink testified that preliminary projections show that \$15.6 million of the proceeds from this loan will be used to finance construction of

³ Id.

⁴ Id.

⁵ Id.

⁶ Id.

⁷ Id.

the CSO Phase II Facilities. Ms. Giebink also provided an update of the costs associated with this project. She related that based upon the engineer's updated costs, the estimated construction costs are approximately \$110 million or 32% lower than the prior year.⁸

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 the NBC submitted its loan application with the RICWFA on September 15, 2011. Ms. Giebink stated that the NBC's Board of Commissioners subsequently passed a resolution authorizing the NBC to borrow an amount not to exceed \$25 million on December 20, 2011. Ms. Giebink related that on October 20, 2011 NBC received notification from the RICWFA that the NBC's loan request was approved at a level of \$25 million subject to a number of terms, which Ms. Giebink described in a schedule attached to her pre-filed testimony.⁹

Ms. Giebink also testified that on December 20, 2011, the NBC filed for the rate relief required to support the debt service and debt service coverage associated with the loan and that the Public Utilities Commission recently granted the request through a bench decision on February 13, 2012.¹⁰

Ms. Giebink additionally testified that as part of the credit review process for this borrowing, the NBC plans to make a presentation to S&P within the

⁸ Id., p. 3 and Transcript.

⁹ Id.

¹⁰ Id.

next two weeks. Ms. Giebink related that it is expected that S&P will issue the credit rating shortly thereafter.¹¹

Ms. Giebink added that the NBC has sufficient coverage for the \$25.75 million bond issuance based upon the rates approved by the Public Utilities Commission on February 13, 2012 (Docket No. 4305).¹²

Finally, Ms. Giebink noted that the Loan Agreement included with the instant application is not final. She explained that the NBC has included a draft loan agreement that is similar to the loan agreements executed by the NBC as part of the traditional subsidized RICWFA loan program.¹³

Ms. Maureen E. Gurghigian testified that since 1946, 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.¹⁴

Ms. Gurghigian related that she has served as financial advisor to the NBC for more than 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

¹¹ Id., p. 3, and Transcript.

¹² Id., p. 4.

¹³ Id.

¹⁴ Id., Gurghigian Testimony, p. 1.

February 2007, the refunding of the 2004 VRDB issue in 2008, the \$55 million ARRA subsidized borrowing from the RICWFA reviewed by the Division in August 2009, the \$2 million ARRA subsidized borrowing from RICWFA reviewed by the Division in January 2010, and the 2011 NBC borrowing from the RICWFA. She related that her services have included the facilitation of the credit rating process, loan structuring and other functions.¹⁵

As background, Ms. Gurghigian related that over the past several years she and First Southwest Company have worked closely with the staff of NBC to develop and maintain a long-term financing model that incorporates NBC's capital and other funding needs. She related that the model is a useful planning tool and serves to ensure that capital funds are available when needed and that ratepayer impact is mitigated. Ms. Gurghigian testified that the model also takes into consideration coverage requirements, debt issuance costs and restricted funds and other relevant items. Ms. Gurghigian stated that NBC's lowest cost form of financing its capital program is through subsidized low interest loans from the RICWFA. Ms. Gurghigian testified that the NBC's financing strategy maximizes the use of these loans and the request presently before the Division is to seek approval to enter into long-term debt and issuance of revenue bonds for an amount not to exceed \$25.75 million.¹⁶

Ms. Gurghigian testified that this revenue bond issuance is a single series comprised of two loans. She explained that one loan is for \$25 million and the second is for \$750,000. Ms. Gurghigian related that the \$750,000

¹⁵ Id., p. 2.

¹⁶ Id.

loan is subsidized with federal funding through the American Recovery and Reinvestment Act (ARRA); and that these funds became available to NBC because a different RICWFA borrower, due to unforeseen circumstances, will not be able to utilize the full amount borrowed.¹⁷

Ms. Gurghigian testified that the loan is amortized over 20 years, with the final maturity in or about 2032. She related that the loan will be structured as level debt with the traditional RICWFA subsidy of 1/3 of the market rate. Ms Gurghigian also testified that because \$354,201.75 is related to “green” projects, this amount is eligible for principal forgiveness. Ms. Gurghigian explained that on an aggregate basis, it is anticipated that the loan will not exceed a market rate of 4.015%, which she related would result in a projected subsidized rate of approximately 2.601%. She added that the projected yield is slightly higher on this borrowing because the projected market yield is approximately 50 basis points higher. According to the witness, the effective rate on the total loan is 2.454%, which includes a 33% interest rate subsidy, \$354,201.75 of principal forgiveness plus RICWFA services fees of 0.5%.¹⁸

In closing, Ms. Gurghigian testified that the bonds to be issued by RICWFA are scheduled to be priced in early June 2012. She related that the RICWFA plans to mail its Preliminary Official Statement to prospective investors approximately one week prior to pricing and prefers that borrower approvals are in place prior to the mailing of the Preliminary Official

¹⁷ Id., pp. 2-3.

¹⁸ Id., p. 3.

Statement.¹⁹ Based on this timing, Ms. Gurghigian related that NBC is requesting a decision by the Division prior to May 25, 2012.²⁰

One member from the public appeared to offer comment in this docket. Mr. Grant Dulgarian raised a number of concerns primarily related to NBC rate design issues. He also questioned the reasonableness of the NBC's Phase II CSO Facilities Project. As the concerns discussed by Mr. Dulgarian are clearly beyond the narrow scope of this bond issuance proceeding, the Division is precluded from addressing those concerns in this report and order.

The Division's Advocacy Section did not present any witnesses in this docket. It did, however, proffer a memorandum from Mr. Thomas S. Catlin from Exeter Associates, Inc., who appeared as an expert witness for the Division in the NBC's late rate proceeding before the Public Utilities Commission. In the memorandum, Mr. Catlin concludes that the NBC has sufficient debt service in its rates to cover the instant borrowing.²¹

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 \$25,750,000

¹⁹ See Transcript for discussion on these dates.

²⁰ See Transcript.

²¹ Advocacy Section Exhibit 1.

from the Rhode Island Clean Water Finance Agency, is reasonable and in the best interest of ratepayers.

Now, therefore, it is

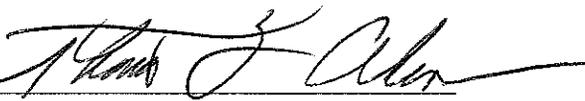
(20729) ORDERED:

1. That the Narragansett Bay Commission's April 20, 2012 application, seeking approval to enter into long-term debt and issue revenue bonds for an amount not to exceed \$25,750,000 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.

DATED AND EFFECTIVE AT WARWICK, RHODE ISLAND ON MAY 8, 2012.



John Spirito, Jr., Esq.
Hearing Officer

APPROVED: 

Thomas F. Ahern
Administrator