



March 26, 2019

Luly Massaro,  
Clerk of the Division of Public Utilities and Carriers  
89 Jefferson Boulevard  
Warwick, RI 02888

**The Hon. Jorge O. Elorza**  
Mayor

**Ricky Caruolo**  
General Manager

RE: Application of Providence Water for Authority to Borrow up to  
\$14,700,000 from the RIIB Docket No. D-19-01

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**William E. O'Gara, Esq.**  
Legal Advisor

Dear Ms. Massaro:

Enclosed for filing are an original and four copies of supplemental testimony in support of Providence Water's request for authority to borrow up to \$14,700,000 from the RI Infrastructure Bank.

Providence Water Supply Board

  
Nancy E. Parrillo  
Senior Manager of Finance

cc: R. Caruolo  
G. Giasson  
P. Pallozzi  
M. Deignan-White  
M. Gurghigian  
K. Grande, Esq.  
M. McElroy, Esq.  
C. Hetherington, Esq.  
File

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#### MEMBER

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Supplemental Testimony

of

NANCY E. PARRILLO

before the

RI DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN SUPPORT OF APPLICATION FOR AUTHORIZATION TO BORROW  
FROM THE RHODE ISLAND INFRASTRUCTURE BANK IN AN AMOUNT  
UP TO \$14,700,000

for

PROVIDENCE WATER SUPPLY BOARD

March 2019  
Docket No. D-19-01

1 Providence Water Supply Board

2 Supplemental Testimony of

3 Nancy E. Parrillo

4

5 **Q. Please state your full name and title.**

6 A. Nancy E. Parrillo, Senior Manager for the Providence Water Supply Board (Providence  
7 Water).

8 **Q. How long have you been employed at Providence Water?**

9 A. I have been employed at Providence Water since April 2015.

10 **Q. Please describe your education and work experience.**

11 A. I graduated from Wheaton College with a Bachelor of Arts Degree with a major in  
12 Economics, and from Bryant University with a Masters of Business Administration  
13 Degree, majoring in Finance. I was previously employed as the Chief Financial Officer of  
14 the Rhode Island Turnpike and Bridge Authority. Prior to that, I was employed by Tatum  
15 LLC, a financial services consultant for four and one half (4 ½) years. I also served as  
16 Chief Financial Officer of the Massachusetts Water Pollution Abatement Trust, the  
17 Massachusetts State Revolving Fund, from 1999 to 2005, and I served as Chief Financial  
18 Officer for the South Essex Sewerage District from 1994 to 1999.

19 **Q. What is the purpose of your supplemental testimony?**

20 A. To provide supplemental information in support of Providence Water's application to  
21 borrow up to \$14.7 million from the Rhode Island Infrastructure Bank (RIIB).

22 **Q. Have there been changes to circumstances surrounding this borrowing?**

23 A. Yes.

24 **Q. Please explain.**

1 A. As reported in the press, the City is exploring the possibility of monetizing the Providence  
2 Water supply system to fund its unfunded pension liability.

3 **Q. How does this affect Providence Water?**

4 A. In discussions with RIIB and our consultants, the City and Providence Water have been  
5 advised that, given the additional affirmative steps being taken toward the monetization,  
6 the City and Providence Water cannot make the tax certifications required to proceed with  
7 a traditional long-term tax-exempt governmental bond financing.

8 **Q. Does Providence Water have other options available?**

9 A. Yes.

10 **Q. What are they?**

11 A. RIIB has offered four (4) options to us. They are as follows:

- 12 1. tax exempt private activity bond 20-year loan
- 13 2. taxable 20-year loan
- 14 3. public offering conduit tax exempt governmental Bond Anticipation Note  
15 (BAN)(2-year) BAN
- 16 4. bank placement conduit tax exempt governmental BAN (2-year).

17 **Q. Has an analysis of the cost of these options been performed?**

18 A. Yes Rhode Island Infrastructure Bank, produced pro-forma debt service schedules  
19 estimating the debt service requirements for each of these options based on current market  
20 rates.

21 **Q. What was the result of that analysis?**

22 A. After reviewing the numbers, the tax-exempt private activity bonds afforded Providence  
23 Water the lowest cost to borrow as compared to the tax-exempt governmental bonds that

1 Providence Water has issued in the past. Our bond counsel and RIIB's bond counsel also  
2 advised that the 2 year BANs were too long a maturity, given the facts and circumstances.  
3 Ms. Gurghigian of Hilltop Securities will present the detailed analysis of this option as  
4 compared to tax exempt governmental bonds.

5 **Q. What is the impact on Providence Water?**

6 A. The interest rate on private activity tax-exempt bonds would be about 33 basis points higher  
7 than tax-exempt governmental bonds. This would result in approximately \$531,000 in  
8 additional interest costs over the 20 year life of the loan or approximately \$26,000 per year  
9 on average.

10 **Q. How does this additional cost impact the customers of Providence Water?**

11 A. This estimated increase in cost when spread across the approximately 74,000 customers  
12 comes to approximately \$0.34 per year per customer. This will be addressed in Providence  
13 Water's next rate filing.

14 **Q. Other than the change in interest rate, are there other terms of the borrowing as set  
15 forth on pages 3-4 of your original testimony that would change?**

16 A. No.

17 **Q. Will RIIB issue a new commitment letter?**

18 A. Yes. A copy of that letter will be forwarded to the Division upon receipt.

19 **Q. Do you have anything additional to add?**

20 A. Yes. Providence Water always strives to find options that are in the best interest of our  
21 customers by researching and choosing options that are the most cost effective with the  
22 least impact on those customers. Given the facts and circumstances, the tax exempt private  
23 activity bonds provide Providence Water with the lowest cost of borrowing that will have

1 the lowest impact on the rate payers and still allow Providence Water to continue to move  
2 the water main rehabilitation project forward in compliance with the consent order from  
3 the RI Department of Health.

4 **Q. When do you need approval?**

5 A. Providence Water is asking for an expedited decision as RIIB is currently scheduled to  
6 issue these bonds towards the end of April/early May and we would like be included so  
7 that funds are available for the construction season which will kick-off in April.

8 **Q. Does this conclude your testimony?**

9 A. Yes it does.

Supplemental Testimony  
of  
GREGG M. GIASSON, PE  
before the  
RI DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN SUPPORT OF APPLICATION FOR AUTHORIZATION TO BORROW FROM THE  
DRINKING WATER STATE REVOLVING FUND IN AN AMOUNT UP TO \$14,700,000

for  
PROVIDENCE WATER

March 2019  
Docket No. D-19-01

1 **Q. Please state your name and your position.**

2 A. My name is Gregg M. Giasson and I am the Deputy General Manager of  
3 Operations/Executive Engineer for the Providence Water Supply Board. I have general  
4 oversight of the Engineering, Water Supply and Transmission & Distribution Departments.

5

6 **Q. Please describe your educational background and work experience.**

7 A. I obtained a Masters of Science in Environmental Engineering from Worcester Polytechnic  
8 Institute in 2001 and a Bachelor of Science in Civil Engineering from Tufts University in  
9 1992. I have worked for the Providence Water Supply Board for six and half years, the first  
10 two years as the Senior Director of Operations and the last four and a half years as the  
11 Deputy General Manager of Operations/Executive Engineer. From 2008 to 2012, I worked  
12 for the Pawtucket Water Supply Board as the Assistant Chief Engineer/Chief of Operations.  
13 Prior to Pawtucket, I worked at the consulting firm Camp, Dresser & McKee for 12 years  
14 where I worked on a variety of drinking water projects as both a project engineer and project  
15 manager. I am a Registered Professional Engineer in the State of Rhode Island.

16

17 **Q. What specific projects will the \$14.7 million fund?**

18 A. On December 14, 2018, Providence Water publicly advertised three large main rehabilitation  
19 projects. These three projects were advertised with the anticipation that we would have  
20 available funding through the borrowing of the \$14.7 million. These three projects include  
21 the rehabilitation of water mains and appurtenances and the replacement of lead service lines.  
22 The projects and their associated costs are summarized as follows.

1 1. In the Blackstone area of Providence (PWSB Contract 1-19), rehabilitation of 36,360  
2 linear feet of water main and appurtenances and replacement of 372 lead services. The  
3 estimated cost (including construction, administration, engineering and permanent  
4 restoration) for this project is approximately \$9,600,000.

5 2. In the Edgewood area of Cranston (PWSB Contract 2-19), rehabilitation of 20,360 linear  
6 feet of water main and appurtenances and replacement of 35 lead services. The estimated  
7 cost (including construction, administration, engineering and permanent restoration) for this  
8 project is approximately \$4,500,000.

9 3. In the Marieville area of North Providence (PWSB Contract 3-19), rehabilitation of  
10 27,860 linear feet of water main and replacement of 31 lead services. The estimated cost  
11 (including construction, administration, engineering and permanent restoration) for this  
12 project is approximately \$5,600,000.

13 The majority of these projects costs will be paid for utilizing the \$14.7 million bond funds  
14 and the remaining portion will be paid for through pay-as-you-go funds. These projects were  
15 awarded to their respective contractors on March 4<sup>th</sup>, 2019.

16 **Q. Is Providence Water under a time constraint?**

17 A. Yes.

18 1. As stated in my previous testimony, Providence Water is under a Bilateral Compliance  
19 Agreement (BCA) with the Rhode Island Department of Health (RIDOH). Under this BCA,  
20 Providence Water is required to spend \$17,000,000 in FY2019 and \$18,000,000 in FY2020  
21 on water main rehabilitation. Without the \$14.7 million in bond proceeds, Providence Water  
22 will not be able to meet the requirements of the BCA and be in non-compliance. As stated in

1 the BCA, "Should Providence Water, after having been given notice of any alleged  
2 deficiencies, and opportunity to cure any such deficiencies in performance relating to this  
3 agreement or fail to meet the requirements of items one (1) through eleven (11) above, an  
4 administrative fine calculated by RIDOH shall be paid." The BCA is included as Attachment  
5 1.

6 2. Providence Water has expended a considerable amount of administrative costs in the  
7 planning, design, bidding and award of these contracts. If we do not have access to these  
8 funds by May of 2019, at least two of these projects would need to be cancelled and re-bid at  
9 a later date. As such, a lot of the administrative costs would have to be duplicated to bid and  
10 award these projects again. In addition, Providence Water has already begun the public  
11 outreach into the communities that will be affected by these projects.

12  
13 **Q. Mr. Giasson, does that conclude your testimony?**

14 **A.** Yes, it does

## **Attachment 1**

DEPARTMENT OF HEALTH  
CENTER FOR DRINKING WATER QUALITY

vs

CITY OF PROVIDENCE

PWS ID# 1592024

BILATERAL COMPLIANCE AGREEMENT

WHEREAS, the Department of Health (RIDOH) has responsibility for safe drinking water and regulatory authority over public water systems in the state of Rhode Island; and

WHEREAS, the City of Providence public drinking water system (Providence Water) supplies water to people in the state of Rhode Island; and

WHEREAS, RIDOH drinking water regulations in accordance with USEPA standards require water testing for lead contamination; and

WHEREAS, Providence Water samples taken in accordance with RIDOH regulations *and* EPA standards have demonstrated a lead level which exceeds the established action level and triggers a lead service line (LSL) replacement program whereby seven percent (7%) of the service lines (SL), as determined in 2005, must be replaced annually; and

WHEREAS, Providence Water was up to date through calendar year 2011 on its 7% SL replacements; and

WHEREAS, concerns have been raised about the effectiveness of partial LSL replacement in reducing lead exposure through water and the abatement of lead contained in water supplied by Providence Water; and

WHEREAS, potentially more effective ways to reduce lead exposure through water and the abatement of lead contained in water supplied by Providence Water have been tentatively identified, including optimized treatment, a system-wide unidirectional flushing program, and an extensive infrastructure program consisting of cleaning, lining, and main replacement of the estimated 50 to 55% of the distribution system that is composed of unlined cast iron pipe; and

WHEREAS, RIDOH has a lead abatement program designed to address the issue of lead reaching the citizenry of Rhode Island;

NOW, THEREFORE, RIDOH and Providence Water agree to the following:

1. RIDOH will grant Providence Water a stay during the 2018 season on its 7% SL replacement requirement. In lieu of LSL replacement, Providence Water shall continue/initiate the following activities:
2. Providence Water will continue consultation with its expert advisory panel to evaluate corrosion control treatment in the Providence Water's water system, including consideration of simultaneous compliance issues. Costs of convening the panel, such as travel and hotel accommodations, shall be borne by the Providence Water Supply Board. The panel shall continue to be composed of representatives from academia, and water supply professionals; its composition shall not change except with the approval of RIDOH.
3. Providence Water shall continue optimization of corrosion control with the approved partial system orthophosphate treatment pilot project.
  - a) Due to the influence of additional pilot project samples on representative compliance sampling, two 90<sup>th</sup> percentile calculations for lead and copper will be reported, both inclusive and exclusive of the orthophosphate pilot project samples, and the higher value of the two 90<sup>th</sup> percentile calculations will be considered for compliance purposes.
  - b) Providence Water shall produce monthly progress reports on the status of the orthophosphate treatment demonstration project including all water quality parameter data associated with the project according to the approved sampling plan. The reports shall also include water main coupons and SL sample harvesting plans, pipe scaling progress, and scaling analyses from coupons and samples within the demonstration area as they become available. The reports shall be submitted on the 27<sup>th</sup> of the following month.
  - c) If reports indicate measurable mitigation of lead exposure is being achieved at the taps of homes within the orthophosphate treatment pilot project area, Providence Water shall begin development of 30% engineering design plans for system-wide implementation of treatment no later than December 31, 2018. The orthophosphate pilot project's effectiveness of reducing lead at the taps and timeline for completion of this task shall be determined by RIDOH with supporting documentation provided by Providence Water and the expert advisory panel discussed in Item 2.
  - d) The 30% engineering design plans for system-wide orthophosphate treatment implementation shall be submitted by September 30, 2019.
  - e) RIDOH shall be provided an annual update on all activity related to corrosion control by Providence Water. The annual corrosion control report for 2018 shall be submitted by February 1<sup>st</sup>, 2019.
4. Until such time as corrosion control has been deemed optimized, Providence Water shall remain on standard monitoring, as specified in the *Rules and Regulations Pertaining to Public Drinking Water* [R46-13-DWQ] (Regulations), Section 6.86 (a) through (d), and Water Quality Parameter monitoring as specified in Section 6.87(a) through (c). Providence Water shall also continue to meet the requirements regarding public education as specified in the Regulations, Section 6.85, and reporting requirements as specified in Section 6.90.
5. Providence Water shall initiate and/or continue measures to address the condition of Providence Water's distribution system, which is believed to be contributing to the presence of lead in the water. These measures shall include but not be limited to:
  - a) A system-wide unidirectional flushing program (UDF). An updated schedule and implementation plan for UDF shall be submitted to RIDOH for approval no later than July 1, 2019. The UDF plan will be aggressive in approach and shall include at least 90 miles per year. The plan shall also include the number of total miles and percentage of distribution system flushed as of present, and information on the zones within the UDF program.

- b) Providence Water shall comply with the terms of the approved Infrastructure Replacement Plan regarding main rehabilitation and replacement, which is understood to mean unlined cast iron mains, for the State fiscal years 2018, 2019, and 2020, in the amounts of \$17,000,000 (FY2018), \$17,000,000 (FY2019), and \$18,000,000 (FY2020).
6. Prior to commencing scheduled or emergency system repairs or water main infrastructure replacement work which requires partial or full LSL replacements during 2018, Providence Water shall comply with the provisions of Section 6.84(d), regarding notification and education. Also, Providence Water shall provide NSF/ANSI-certified point-of-use water pitcher treatment units and one replaceable filter to affected residents who may experience short-term elevated lead levels in drinking water as a result of a partial or full LSL replacement. Affected residents shall also be notified as soon as possible of the interest free loan opportunities for full LSL replacement and, at a minimum, as soon as a work schedule for SL replacement has been identified.
  7. Outside of the LSL replacements which shall take place under system repairs, Providence Water shall use best efforts to solicit and conduct additional full LSL replacements. Providence Water shall prioritize such best efforts in areas with the greatest numbers of vulnerable populations including day care centers and schools. A detailed progress report to solicit and conduct full LSL replacements shall be submitted to RIDOH annually with the first report due February 1<sup>st</sup>, 2019, and include the following items:
    - a) Include feasibility subreport to RIDOH on the process and obstacles involved in implementing a municipal ordinance requiring full LSL replacement upon sale, demolition, or replacement of buildings in the cities of Providence and Cranston. This subreport shall include evaluating how other communities have developed and implemented similar ordinances.
    - b) Include feasibility subreport to RIDOH on implementing a full LSL replacement plan at no cost to the homeowner via principal forgiveness, grant monies, housing and urban development monies, or other means. The subreport shall include evaluating how other communities and public water systems have provided full LSL replacements at no cost to the homeowner.
    - c) Hold annual outreach meeting with municipalities served by Providence Water. Outreach shall include the progress of Providence Water and other municipalities in implementing LSL replacement plans, including demonstrated successes in obtaining monies and implementation of such plans. Outreach to municipalities shall also include educational information on how municipalities can take advantage of existing programs and monies to implement comprehensive LSL replacement plans. A subreport detailing this outreach meeting shall be included in each annual progress report.
    - d) Include subreport on comprehensive promotional efforts and utilization of the \$1,250,000 granted by the Public Utilities Commission & Rhode Island Infrastructure Bank to conduct private LSL replacement at 0% interest financing over the course of three years. This subreport shall include a list of all promotional materials with distribution dates and a summary of the number of participants, and their service locations by municipality, that have successfully received SL replacement under this program. The initial progress report shall include the total number of SL replacements that have been performed under this program to date.
    - e) Include subreport on the number of public side LSL replacements that have been conducted in the previous 12 months, in each progress report. The initial annual progress report shall include a subreport on the number of public side LSLs that have been replaced to date.
    - f) Consumers discovered to have private LSLs shall be issued written notification of their SL's composition, provided with public education materials, information regarding Providence Water's free lead sampling program, and the financial opportunities available for replacement, within 30 days of discovery. Currently known private LSLs shall be issued this notification and materials by September 1, 2018. A subreport of these notifications shall be included in each annual progress report.

- g) Known non-lead private SLs that have a public LSL shall be identified and prioritized for public LSL replacement as soon as possible but no later than 24 months. Newly discovered SLs that fit this description shall also be replaced as soon as possible but no later than 24 months. A subreport of the number of these sites identified, and those scheduled for replacement shall be included in the progress reports.
8. Providence Water shall implement a survey of all private side SLs to identify or confirm plumbing material composition, beginning October 1, 2018. Providence Water shall survey the number of private SLs, equal to the number of water meters that Providence Water replaces or inspects, annually. Results of these surveys, including material composition of plumbing and the corresponding street address, shall be submitted to RIDOH in the form of a summary report by February 1<sup>st</sup>, 2019 and annually thereafter. The initial report shall include all current private SLs. Plumbing material composition in the initial report shall be reported as either "suspected lead service line" for buildings constructed before 1940, "plumbing material not yet determined" for buildings constructed after 1940, "known lead service line" or "known non-lead service line" accordingly. Private side SLs, surveyed during meter replacement/inspection after October 1, 2018, shall be identified as either "known lead service line" or "known non-lead service line". Instances where plumbing material composition cannot be determined during inspection or replacement shall be identified as "suspected lead" for buildings constructed before 1940 and "plumbing material could not be determined" for buildings constructed after 1940. The initial summary report shall also include the number of all private LSL replacements that have occurred to date.
9. By March 1, 2019, Providence Water shall provide all individual lead & copper compliance sampling results and locations online in an approved, electronic, and searchable format, accessible by the public. By March 1, 2019, all individual lead & copper compliance sampling results shall be posted online within 72 hours of certification of the results from the laboratory. By March 1, 2019, Providence Water shall also include all known and suspected private SL plumbing material composition in Providence Water's current "Lead Service Location Map" and it shall be updated annually as private SL surveys are performed.
10. By September 1, 2018, Providence Water shall establish a prominent weblink, to a primary webpage for all information regarding lead in drinking water, on the Providence Water website homepage. The weblink must be as prominent as the major weblinks on the current homepage, e.g. "Pay your water bill", "Customer service", "Report a problem". The primary lead in drinking water webpage shall prominently display the most recent 90<sup>th</sup> percentile lead results and the LCR lead action level, as well as the required health effects language associated with lead. The primary lead in drinking water webpage shall also include a prominently displayed weblink to the "Lead Service Location Map". After Item 9 of this document has been completed, a weblink to the online lead results shall also be located on the primary lead in drinking water webpage. Lastly, Providence Water shall include information regarding the ongoing orthophosphate treatment evaluation under the "Corrosion Control" section of Providence Water's website.
11. Providence Water's annual Consumer Confidence Report (CCR) for 2019, and subsequent CCRs, shall include a prominently displayed weblink to Providence Water's primary lead in drinking water webpage on the first page of the CCR. The 2019 CCR (calendar year 2018) and subsequent CCRs shall report the highest of two 90<sup>th</sup> percentile calculations for lead and copper, one inclusive and one exclusive of the orthophosphate pilot project samples.
12. Should Providence Water, after having been given notice of any alleged deficiencies, and opportunity to cure any such deficiencies in performance relating to this agreement or fail to meet the requirements of items one (1) through eleven (11) above, an administrative fine calculated by RIDOH shall be paid.
13. Should Providence Water feel that the requirements of this Bilateral Consent Agreement cannot be met within budget, time or managerial constraints, and that the terms need to be modified, Providence Water shall notify this office immediately, and request a meeting at which a detailed justification of the requested modification shall be presented, including a description of the efforts made to comply with the terms as written.
14. This Bilateral Consent Agreement shall be renegotiated and updated by March 31, 2019, to reflect changes to the Safe Drinking Water Act "Lead and Copper Rule" that may or may not be promulgated by the EPA, and any other changes in circumstances that may necessitate altering this Agreement.

This Bilateral Consent Agreement is satisfactory and accepted by both parties. The terms of this Agreement shall become effective upon signing by both parties.

 8/8/12  
Ricky Caruolo  
Providence Water  
PWS#1592024

 8/8/12  
June Swallow, P. E., Chief  
R.I. Center for Drinking Water Quality

Pre-filed Testimony

of

KAREN S.D. GRANDE

before the

RI DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN SUPPORT OF APPLICATION FOR AUTHORIZATION TO BORROW  
FROM THE RHODE ISLAND INFRASTRUCTURE BANK IN AN AMOUNT  
UP TO \$14,700,000

for

PROVIDENCE WATER SUPPLY BOARD

March 2019  
Docket No. D-19-01

**PROVIDENCE WATER SUPPLY BOARD**

**PRE-FILED DIRECT TESTIMONY**  
**OF KAREN S. D. GRANDE**

**Q. Please state your name.**

A. My name is Karen S. D. Grande.

**Q. Could you please describe your education and employment background?**

A. I have a bachelor's degree from Syracuse University and a juris doctor from Suffolk University Law School. I am a partner in the law firm of Locke Lord LLP, 2800 Financial Plaza, Providence, Rhode Island. I have focused my practice in the area of public finance since I started practicing law in 1987. I have served as bond counsel to 23 of Rhode Island's 39 cities and towns, as well as many state and municipal agencies, which finance public projects, including public water supply and wastewater projects.

**Q. Do you hold any special licenses or certifications?**

A. I am licensed to practice law in Rhode Island and Massachusetts. Although I have focused my practice in the area of public finance, neither the State of Rhode Island nor the Commonwealth of Massachusetts has a procedure for certification of specialization. I am a member of the Rhode Island Bar Association, the National Association of Bond Lawyers and an associate member of the Rhode Island Government Finance Officer's Association.

**Q. What is your relationship with the Providence Water Supply Board?**

A. I have served as bond counsel to the City of Providence (the "City") and the Providence Water Supply Board ("Providence Water") in connection with its water

bond issues since 1990, including previous loans from the Rhode Island Infrastructure Bank (RIIB).

**Q. What is the purpose of your testimony?**

A. My testimony serves to address the proposal that the City issue its proposed \$14,700,000 revenue obligations as tax-exempt private activity bonds.

**Q. Why do you describe the revenue obligation as the City's revenue obligation rather than Providence Water's?**

A. Providence Water is a board of the City and has no independent legal authority to issue bonds. Therefore, any borrowing for the Providence Water supply system must be carried out by the City.

**Q. Have you testified previously before the PUC?**

A. I have appeared before the PUC in connection with rate filings for the Providence Water Supply Board, Kent County Water Authority, the Pawtucket Water Supply Board and the Narragansett Bay Commission.

**Q. Can you describe in in general terms the difference between the proposed bonds and revenue bonds that the City has issued to RIIB in the past?**

A. The revenue bonds that the City has issued in the past were tax-exempt governmental bonds. This issue is now proposed to be issued as tax-exempt private activity bonds.

**Q. What is a tax-exempt governmental bond?**

A. Tax-exempt governmental bonds are tax-exempt bonds issued by a state or local government, the proceeds of which are used to finance activities or facilities owned, operated, or used by that or another government for its own purposes. A tax-exempt

governmental bond is a bond issued by a state or local government that is not a “private activity bond.”

**Q. What is a private activity bond?**

A. Bonds are private activity bonds if they meet the “private business use” and “private security” or “private payment” test. Generally, the test is met if (1) more than 10% of the proceeds of an issue is used in a private trade or business, and (2) the payment of principal or interest on more than 10% of the issue is directly or indirectly secured by or derived from property used or to be used for a private business use, or payments made for such property. A nongovernmental person will be treated as “using” proceeds of tax exempt obligations to the extent the nongovernmental person: (a) borrows proceeds of the tax-exempt obligations, (2) uses any portion of the projects financed with tax-exempt obligations as owner, lessee, service provider, operator or manager, (3) acquires the output of such projects, or (4) enters into any other arrangement that provides a special legal entitlement or special economic benefit to a nongovernmental person.

**Q. Why would the City not issue tax-exempt governmental bonds as it has in the past?**

A. One of the requirements to issue tax-exempt governmental bonds is that the City and Providence Water must reasonably expect on the date of issue that the bonds would not meet the private activity bond test for the entire term of the bonds (twenty years in this case). Therefore, to the extent that the City is taking affirmative steps to attempt to enter into an arrangement whereby the Providence water supply system may be transferred, leased or operated by a nongovernmental

person during the term of the bonds, the City cannot meet that requirement, so the bonds cannot be issued as tax-exempt governmental bonds.

**Q. The City has considered monetization of the water system before and still issued tax-exempt governmental bonds. What is different this time?**

A. In the past, the City has undertaken feasibility studies and introduced legislation at the Rhode Island General Assembly which would have permitted monetization of the water system, but the City and Providence Water were still able to make the required representations. This year, the City has taken additional steps toward monetization and issued a Request for Qualifications for private companies to monetize the system. Our firm and RIIB's bond counsel have had discussions with the City and Providence Water and understand that City and Providence Water are unable to represent at this time that they reasonably expect that the Providence water supply system will not be transferred, leased or operated by a nongovernmental person during the term of the bonds.

**Q. What are the City's/Providence Water's alternatives for financing?**

A. RIIB has offered four (4) options. They are as follows:

1. tax-exempt private activity bond with 20-year maturity.
2. taxable bond with 20-year maturity.
3. public offering conduit tax-exempt Bond Anticipation Note (BAN) with 2-year maturity.
4. bank placement conduit tax-exempt BAN with 2-year maturity.

**Q. Which option has been selected?**

A. I understand that the tax-exempt private activity bond with 20-year maturity is the preferred option.

**Q. How is it that a private activity bond can be issued as a tax-exempt obligation?**

A. Congress has authorized specified types of private activity bonds known as “qualified exempt facility bonds” to be issued on a tax-exempt basis. Exempt facility bonds are tax-exempt bonds, 95% of the net proceeds of which are to be used to provide a specified facility. One of those permitted facility types is “facilities for the furnishing of water.” The Internal Revenue Code imposes additional requirements on the issuance of private activity bonds and such bonds are subject to the alternative minimum tax imposed on certain taxpayers, so an issuer will issue tax-exempt private activity bonds only if the reasonably expected amount of private activity precludes the issuance of tax-exempt governmental bonds.

**Q. Are the City and Providence Water allowed to refinance these bonds in the future if facts and circumstances change?**

A. The borrower bonds are subject to redemption with the consent of RIIB. RIIB’s bonds issued to investors typically are subject to redemption after ten years. Therefore, if the City’s and Providence Water’s reasonable expectations about private use change, and if there would be a savings, the bonds could be refinanced.

**Q. Does this conclude your testimony?**

A. Yes.

SUPPLEMENTAL TESTIMONY

of

MAUREEN E. GURGHIGIAN

before the

RI DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN SUPPORT OF PROVIDENCE WATER SUPPLY BOARD'S  
APPLICATION FOR AUTHORIZATION TO BORROW  
FROM THE DRINKING WATER STATE REVOLVING FUND  
IN AN AMOUNT  
NOT TO EXCEED \$14,700,000

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**March 2019**

Docket No. D-19-01 Debt Filing

**PROVIDENCE WATER SUPPLY BOARD  
SUPPLEMENTAL TESTIMONY OF  
MAUREEN E. GURGHIGIAN  
March 2019**

1 **Q: Please state your name and business address.**

2 A: My name is Maureen E. Gurghigian and I am a Managing Director at Hilltop  
3 Securities Inc. (“Hilltop Securities”) in the Lincoln, Rhode Island branch office.  
4

5 **Q: Please state the purpose of your testimony.**

6 A: I provided direct testimony in support of Providence Water’s Debt Filing, Docket  
7 No. 19-01. As described in the testimony provided by Karen Grande, Bond  
8 Counsel for Providence Water, and the supplemental testimony provided by Nancy  
9 Parrillo of Providence Water, there has been a change in the expected tax treatment  
10 of the interest on the bonds to support the loan from Rhode Island Infrastructure  
11 Bank (RIIB) to Providence Water. The aforementioned change in tax treatment  
12 will have an impact on the interest rate on Providence Water’s loan and that impact  
13 is the subject of this supplement to my direct testimony.  
14

15 **Q: Please describe your role in this proceeding.**

16 A: I am providing assistance to Providence Water and its financing team with respect  
17 to the issuance of debt through Rhode Island Infrastructure Bank (“RIIB”). I have  
18 been asked by Providence Water to provide information on the debt service  
19 requirements for its proposed borrowing, and to respond to related questions.  
20

21 **Q: Please discuss any updates you can provide Providence Water’s financing  
22 plans.**

23 A. As set forth in its Application for Approval of Borrowing Authority, Providence  
24 Water seeks to obtain a loan in the amount of up to fourteen million and seven  
25 hundred thousand dollars (\$14,700,000). It is expected that the loan will be funded  
26 through revenue bonds sold by RIIB under the Rhode Island Safe Drinking Water  
27 State Revolving Fund (DWSRF). Due to the factors described in Karen Grande’s  
28 testimony and Nancy Parrillo’s supplemental testimony, it is expected that the  
29 bonds issued by RIIB to fund the loan to Providence Water will be Tax Exempt  
30 Private Activity Bonds rather than Tax Exempt Governmental Bonds.

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**Q: Can you explain how the financing will work for the \$14,700,000 borrowing?**

A. Yes. Providence Water has borrowed from the State Revolving Fund in the past. This loan will be similar to those previously approved by the Division. This project has been identified in Providence Water’s capital program, and is listed on the Department of Health’s Project Priority List. Therefore, this project qualifies for a subsidized DWSRF loan through RIIB. However, as described above, Private Activity Bonds will result in a somewhat higher interest rate on the Providence Water Loan.

**Q: What is the term of this borrowing and the applicable interest rate for a tax exempt governmental bond?**

A. The term is approximately 20 years from the projected completion of construction. This has not changed. Based upon market conditions as of March 18, 2019, it was anticipated that the interest rate on a tax exempt governmental loan would not exceed a market rate of 4.312%, which would result in a projected subsidized rate of approximately 2.947%.

**Q: What is the expected applicable interest rate for a private activity tax exempt loan?**

A. Based upon market conditions as of March 18, 2019, it is anticipated that the interest rate on the loan will not exceed a market rate of 4.655%, which would result in a projected subsidized rate of approximately 3.272%, an increase of about 33 basis points or .33% over a tax exempt governmental loan.

**Q: Has there been a change in how funds from this borrowing will be disbursed?**

A: No, except for a lower debt service reserve fund requirement due to lower interest rates which results in a higher project fund deposit. Approximately \$13,378,000 will be available for Project funds, approximately \$1,050,000 will be set aside in the debt service reserve fund, and approximately \$272,000 is allocated for costs of

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1 issuance, including rating agency fees, bond counsel, financial advisor and trustee  
2 fees, and the origination fee. The debt service reserve fund for a private activity  
3 bond will be about \$30,000 higher than for a tax exempt governmental bond  
4 resulting in a slightly smaller project fund deposit for the private activity bond.  
5

6 **Q: What are the applicable schedules and deadlines for this financing?**

7 A: This borrowing will be done when RIIB sells its revenue bonds for the DWSRF,  
8 which is anticipated to take place in the second quarter of 2019. RIIB requires all  
9 borrower approvals to be in place prior to mailing the RIIB Preliminary Official  
10 Statement.  
11

12 **Q: What is the projected schedule of debt service for the contemplated new  
13 borrowing and how will it differ from the original projection?**

14 A. The projected debt service for the new borrowing is displayed in Schedule MG-2.  
15 Overall interest rates have declined since the original filing. A tax exempt  
16 governmental issue sold in the current market would be expected to price at  
17 approximately .33% lower interest rate than a private activity borrowing. Annual  
18 debt service for the loan once all funds are drawn is projected to be approximately  
19 \$1,055,000 or about \$30,000 more than a governmental tax exempt borrowing. The  
20 total difference in debt service over the life of the loan is approximately \$531,000  
21 between a tax exempt private activity bond and a tax exempt governmental bond.  
22

23 **Q: Does this complete your supplemental testimony?**

24 A: Yes it does.

MG-2

**Rhode Island Infrastructure Bank**  
**Safe Drinking Water Revolving Fund Loan, 2019**  
**Rates as of 3/20/2019 + 100bps - Preliminary/Subject to Change (Subject to AMT)**

**Loan Debt Service**

Providence WSB - \$14.7 (AA Rated, Revenue Pledge)

Date	Principal	Loan Rate	(1) Interest	Net Fees @ 0.500%	Total Fees & Interest	Net Fees, Capl, & Interest	Total Net Debt Service	Annual Net Debt Service & Fees
05/22/19								-
09/01/19	532,000.00	2.370%	18,771.20	3,067.19	21,838.39	21,838.39	553,838.39	553,838.39
03/01/20	-	-	91,832.01	15,005.23	106,837.24	106,837.24	106,837.24	-
09/01/20	548,000.00	2.400%	123,388.26	20,161.48	143,549.74	143,549.74	691,549.74	798,386.98
03/01/21	-	-	186,867.49	30,533.90	217,401.39	217,401.39	217,401.39	-
09/01/21	564,000.00	2.430%	211,705.40	34,050.00	245,755.40	245,755.40	809,755.40	1,027,156.79
03/01/22	-	-	204,852.80	32,640.00	237,492.80	237,492.80	237,492.80	-
09/01/22	580,000.00	2.500%	204,852.80	32,640.00	237,492.80	237,492.80	817,492.80	1,054,985.60
03/01/23	-	-	197,602.80	31,190.00	228,792.80	228,792.80	228,792.80	-
09/01/23	597,000.00	2.570%	197,602.80	31,190.00	228,792.80	228,792.80	825,792.80	1,054,585.60
03/01/24	-	-	189,931.35	29,697.50	219,628.85	219,628.85	219,628.85	-
09/01/24	616,000.00	2.660%	189,931.35	29,697.50	219,628.85	219,628.85	835,628.85	1,055,257.70
03/01/25	-	-	181,738.55	28,157.50	209,896.05	209,896.05	209,896.05	-
09/01/25	635,000.00	2.710%	181,738.55	28,157.50	209,896.05	209,896.05	844,896.05	1,054,792.10
03/01/26	-	-	173,134.30	26,570.00	199,704.30	199,704.30	199,704.30	-
09/01/26	656,000.00	2.780%	173,134.30	26,570.00	199,704.30	199,704.30	855,704.30	1,055,408.60
03/01/27	-	-	164,015.90	24,930.00	188,945.90	188,945.90	188,945.90	-
09/01/27	677,000.00	2.850%	164,015.90	24,930.00	188,945.90	188,945.90	865,945.90	1,054,891.80
03/01/28	-	-	154,368.65	23,237.50	177,606.15	177,606.15	177,606.15	-
09/01/28	700,000.00	2.950%	154,368.65	23,237.50	177,606.15	177,606.15	877,606.15	1,055,212.30
03/01/29	-	-	144,043.65	21,487.50	165,531.15	165,531.15	165,531.15	-
09/01/29	724,000.00	3.020%	144,043.65	21,487.50	165,531.15	165,531.15	889,531.15	1,055,062.30
03/01/30	-	-	133,111.25	19,677.50	152,788.75	152,788.75	152,788.75	-
09/01/30	749,000.00	3.160%	133,111.25	19,677.50	152,788.75	152,788.75	901,788.75	1,054,577.50
03/01/31	-	-	121,277.05	17,805.00	139,082.05	139,082.05	139,082.05	-
09/01/31	777,000.00	3.270%	121,277.05	17,805.00	139,082.05	139,082.05	916,082.05	1,055,164.10
03/01/32	-	-	108,573.10	15,862.50	124,435.60	124,435.60	124,435.60	-
09/01/32	806,000.00	3.360%	108,573.10	15,862.50	124,435.60	124,435.60	930,435.60	1,054,871.20
03/01/33	-	-	95,032.30	13,847.50	108,879.80	108,879.80	108,879.80	-
09/01/33	837,000.00	3.370%	95,032.30	13,847.50	108,879.80	108,879.80	945,879.80	1,054,759.60
03/01/34	-	-	80,928.85	11,755.00	92,683.85	92,683.85	92,683.85	-
09/01/34	870,000.00	3.390%	80,928.85	11,755.00	92,683.85	92,683.85	962,683.85	1,055,367.70
03/01/35	-	-	66,182.35	9,580.00	75,762.35	75,762.35	75,762.35	-
09/01/35	903,000.00	3.410%	66,182.35	9,580.00	75,762.35	75,762.35	978,762.35	1,054,524.70
03/01/36	-	-	50,786.20	7,322.50	58,108.70	58,108.70	58,108.70	-
09/01/36	939,000.00	3.420%	50,786.20	7,322.50	58,108.70	58,108.70	997,108.70	1,055,217.40
03/01/37	-	-	34,729.30	4,975.00	39,704.30	39,704.30	39,704.30	-
09/01/37	976,000.00	3.470%	34,729.30	4,975.00	39,704.30	39,704.30	1,015,704.30	1,055,408.60
03/01/38	-	-	17,795.70	2,535.00	20,330.70	20,330.70	20,330.70	-
09/01/38	1,014,000.00	3.510%	17,795.70	2,535.00	20,330.70	20,330.70	1,034,330.70	1,054,661.40
	<u>14,700,000.00</u>		<u>4,868,772.56</u>	<u>745,357.80</u>	<u>5,614,130.36</u>	<u>5,614,130.36</u>	<u>20,314,130.36</u>	<u>20,314,130.36</u>

(1) Interest during construction is calculated based on the timing of expected draws and the overall weighted average loan rate of 3.060%.

(2) Minimum principal amortization is required before Construction Fund is completely drawn.