

**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-15-116
Issue Debt :

REPORT AND ORDER

On August 7, 2015, 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 \$30,000,000. 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 \$30,000,000 for a new Central Operations Facility (“COF”) at an interest rate not to exceed 4.5%. The filing states that the loan will be secured by the Providence Water Enterprise Fund Revenues under the PWSB Bond Indenture.¹

In response to the application filing, the Division conducted a duly noticed public hearing on August 26, 2015. The hearing was conducted in

¹ PWSB Exhibit 1.

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 four witnesses in support of its filing. All four witnesses submitted pre-filed direct testimony.² The witnesses were identified as Mr. Ricky Carulo, PWSB's General Manager; Ms. Nancy E. Parrillo, PWSB's Senior Manager of Customer Service; Mr. Gregg M. Giasson, PE, PWSB's Deputy General Manager of Operations; and Ms. Maureen Gurghigian, Managing Director, First Southwest Company, 652 George Washington Highway, Lincoln, Rhode Island.

Mr. Carulo testified that PWSB intends to finance this project through the RICWFA due to the 25% discount that PWSB will receive on the market interest rate. He related that the funds will be used for the purchase and renovation of a new COF located at 125 Dupont Drive in Providence. He explained that after the project is completed, 190 PWSB employees, currently working at 552 Academy Avenue in Providence and in Cranston, will be relocated to the new COF.³

Mr. Carulo testified that PWSB wishes to relocate from its Academy Avenue location primarily due to the pedestrian and street traffic in the area,

² PWSB Exhibit 1.

³ Id., Carulo Testimony, pp. 2-3.

which, he contended, "...continues to hinder our operational efficiency and is a danger to Providence Water and our neighbors." He also stressed that "[a]ccess to the nearest highway continues to be a concern for us because we need to travel through congested areas for almost 2 miles in order to obtain access to the nearest highway;"⁴ and that the current Academy Avenue facility lacks sufficient parking space for PWSB's employees and is too small to house PWSB's Cranston employees.⁵ Mr. Carulo also testified that the Academy Avenue facility, built in the early 1900's, is owned by the City of Providence and not PWSB and that the property is in need of major repairs and upgrades. He noted that the facility was categorized as "functionally obsolete" in a 2008 facility assessment.⁶

Mr. Carulo next testified that after years of searching, PWSB has located an ideal facility at 125 Dupont Drive in Providence (located off Niantic Avenue). He related that he recently signed a Purchase and Sale Agreement ("PSA") on the property and hopes to close later this year. Mr. Carulo testified that in order to prevent the loss of PWSB's \$250,000 deposit, PWSB "will need Commission approval of \$2.4 million in capital funding, and Division approval of the \$30 million borrowing on or before September 1, 2015."⁷ Mr. Carulo also testified that the new facility is large enough to accommodate PWSB's employees and equipment, is centrally located within

⁴ Id, p. 3.

⁵ Id., pp. 3-4.

⁶ Id., p. 5.

⁷ Id.

PWSB's distribution system, has much better highway access and is large enough to support future growth.⁸

Ms. Nancy Parrillo also testified in support of the proposed borrowing. She began her testimony by relating that PWSB is paying \$10,350,000 for the new COF and that a \$250,000 deposit was paid when the PSA was executed on May 7, 2015. She related that PWSB has "a due diligence" period that ends on September 1, 2015, by which time PWSB "must receive approval from all applicable state and local regulatory and financial authorities to acquire and finance the property."⁹

Ms. Parrillo related that PWSB is currently projecting a cost of approximately \$27,000,000 to acquire and renovate the building that will be used as the new COF. She offered the following detail:

- \$10,350,000 – purchase price;
- \$200,000 – engineering and design costs, inspections, surveys, appraisals and legal costs;
- \$16,300,000 – for planned renovations by Dimeo Construction Company; and
- \$100,000 - for new office furnishings and to move furnishings and office equipment from the existing Providence and Cranston facilities.¹⁰

⁸ Id., pp. 5-6.

⁹ Id., Parrillo Testimony, p. 2.

¹⁰ Id.

Ms. Parrillo testified that PWSB has requested a revenue increase of \$2,448,000 from the Public Utilities Commission (“Commission”) (filed on June 17, 2015) and that the matter is currently pending in Commission Docket No. 4571. She explained that the revenue increase, if approved, will provide funding for the debt service on the \$30 million borrowing and a 25% reserve requirement for fiscal year 2017. She also explained that \$48,000 of the increase is for PWSB’s Revenue Reserve Fund (\$12,000) and Operating Reserve (\$36,000).¹¹ Additionally, Ms. Parrillo related that the increase will only impact PWSB’s “retail” customers. Wholesale customers will not be effected. She quantified the associated annual rate increase at \$19 or 5%, for a residential customer using 100 HCF (74,800 gallons); and about a 6% increase for PWSB’s retail commercial and industrial customers.¹²

Ms. Parrillo next testified that PWSB’s Board issued a resolution on June 18, 2015 approving the borrowing; and that the Providence City Council approved the bond issue on July 24, 2015. Ms. Parrillo proffered copies of the resolution and Bond Ordinance.¹³ Ms. Parrillo also confirmed that PWSB received a Certificate of Approval from the State Department of Health approving PWSB’s planned COF project.¹⁴

Ms. Parrillo next presented a pro forma capital structure showing the effects of the security issue. The related exhibit reflected that PWSB’s total

¹¹ Id., p. 3.

¹² Id.

¹³ Id., p. 3 and attached Exhibits I and II.

¹⁴ Id., p. 6 and attached Exhibit VI.

capitalization would increase to about \$107.7 million after the bond issue.¹⁵ The exhibit further shows that PWSB's debt to total assets ratio will be 27.52% and debt to net utility plant will be 38.16% after this issue. Ms. Parrillo related that "our financial advisor has indicated that debt to net utility plant should be less than 40% and the debt to total assets ratio should be less than the debt to net plant ratio."¹⁶

Ms. Parrillo next summarized how the proceeds of the bond will be utilized. She testified that a portion of the \$30,000,000 borrowing would be used for the costs of issuance (estimated at approximately \$150,000), a debt service reserve (\$2,065,567 - equal to one year's maximum debt service), and loan origination fees (equal to 1% or \$300,000).¹⁷

Regarding the general terms of the borrowing, Ms. Parrillo related that the \$30,000,000 borrowing will be through the RICWFA and have a 20-year term. She testified that the interest rate on the loan will be based on the PWSB's AA- rating, less a 25% discount. She also testified that an annual administrative fee of .5% of the outstanding loan balance will be paid to RICWFA. She identified the "estimated effective interest rate" to be approximately 2.84%, which she noted does not include the .5% annual fee to the RICWFA.¹⁸

¹⁵ Id., pp. 3-4 and attached Exhibit III.

¹⁶ Id., p. 4.

¹⁷ Id., p. 4.

¹⁸ Id., p. 5.

In her final comments, Ms. Parrillo requested expedited consideration from the Division. She related that although the RICWFA will not issue bonds until February of 2016, the PSA requires PWSB to “receive approval from [the Division]... by 5:00 PM on September 1, 2015.”¹⁹

Ms. Gurghigian related that she is providing assistance to PWSB and its financing team with respect to the instant borrowing through RICWFA. She testified that the proposed \$30,000,000 borrowing from the RICWFA is needed for financing the acquisition, construction, renovation, furnishing and equipping of a new COF, including but limited to, land and building acquisition, demolition, design, engineering, paving, landscaping, and all attendant expenses.²⁰

Ms. Gurghigian explained that of the \$30,000,000 loan amount, approximately \$27,484,433 will be available for project funds, and approximately \$2,065,567 will fund the debt service reserve fund. She stated that an additional \$450,000 is allocated for costs of issuance, including rating agency fees, bond counsel, financial advisor and trustee fees, and the RICWFA origination fee.²¹

In describing how the financing works, Ms. Gurghigian explained that pursuant to the Safe Drinking Water Act Amendments of 1996, Rhode Island has created a Drinking Water State Revolving Fund (“DWSRF”) administered by the RICWFA to provide financial assistance to water suppliers. She

¹⁹ Id., p. 6.

²⁰ Id., Gurghigian Testimony, p. 2.

²¹ Id., p. 3.

related that the fund 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 Rhode Island Department of Health. Ms. Gurghigian explained that RICWFA sells bonds in the public market and loans the proceeds to its drinking water borrowers pursuant to loan agreements. Ms. Gurghigian related that PWSB identified these projects in its capital program and they are listed on the Rhode Island Department of Health's Project Priority List. She testified that these projects, therefore, qualify for a subsidized DWSRF loan through the RICWFA.²²

Ms. Gurghigian testified that the term of the requested borrowing is 20 years. She explained that the expected interest cost will reflect a subsidized rate of 25% off the current market rates. Ms. Gurghigian testified that based upon market conditions as of May 6, 2015, it is anticipated that the loan will not exceed a market rate of 3.87%, which, she related, would result in a projected subsidized rate of approximately 2.84%.²³

Ms. Gurghigian testified that this borrowing will be done when the RICWFA sells its revenue bonds for the DWSRF, which is anticipated to take place in the fourth quarter of 2015 or the first quarter of 2016. Ms.

²² Id., pp. 2-3.

²³ Id., p. 4.

Gurghigian related that RICWFA requires that all borrower approvals be in place prior to mailing the RICWFA Preliminary Official Statement.²⁴

Ms. Gurghigian also proffered a debt service schedule with her pre-filed testimony. She testified that for the \$30,000,000 loan, annual debt service is expected to increase by approximately \$2,076,000 per year. She noted that this amount is subject to change based upon the actual project costs, draw schedule and prevailing interest rates at the time of borrowing.²⁵

Mr. Gregg Giasson's testimony covered the process PWSB followed to locate and purchase a new COF, how the purchase price was negotiated, and the total cost to purchase and rehabilitate the new COF. Mr. Giasson also offered his opinion on why the PWSB needs a new COF.²⁶

Regarding the need for a new COF, Mr. Giasson opined that the Academy Avenue facility is too small and that there are safety issues when large trucks deliveries come into the storage yard. He also emphasized that the building facilities are "approaching or beyond" their useful service life and that upgrades and code compliance would require a "substantial investment."²⁷

Mr. Giasson testified that between 2007 and 2015, PWSB evaluated 28 different properties. He related that the 125 Dupont Drive location "...meets the needs for a COF... and is located close to the center of our distribution

²⁴ Id., p. 3.

²⁵ Id., also Schedule MG-1.

²⁶ Id., Giasson Testimony, pp. 1-4.

²⁷ Id., p. 2.

system.” Mr. Giasson also provided a chronology of events covering the timeframe between PWSB’s discovery of the property’s availability and the execution of the PSA.²⁸ He also provided details on the property’s acquisition and rehabilitation costs.²⁹

The Division’s Advocacy Section did not present any witnesses in this case. After a brief cross-examination of PWSB’s witnesses, the Advocacy Section stated for the record that it was satisfied from the evidence presented, that 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 PWSB’s application seeking authority to borrow from the Clean Water State Revolving Fund an amount not to exceed \$30,000,000, is reasonable and in the best interest of ratepayers.

Now, therefore, it is

(22050) ORDERED:

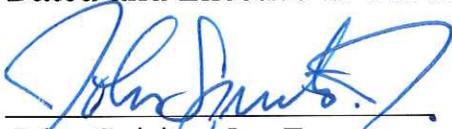
1. That the Providence Water Supply Board’s August 7, 2015 application, which seeks Division approval under R.I.G.L. §39-3-15, to borrow from the Clean Water State Revolving Fund an amount not to exceed \$30,000,000, is hereby approved as filed.

²⁸ Id., pp. 2-3.

²⁹ Id., p. 3.

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 Providence Water Supply Board'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 August 27, 2015.



John Spirito, Jr., Esq.
Hearing Officer

Approved: 

Thomas F. Ahern
Administrator