

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

IN RE: Pawtucket Water Supply Board :
Application To Issue Refunding :
Bonds Up To A Par Amount Of : Docket No. D-15-194
\$26,995,000 :

REPORT AND ORDER

On October 21, 2015, the Pawtucket Water Supply Board ("PWSB"), 85 Branch Street, Pawtucket, Rhode Island, filed an application with the Rhode Island Division of Public Utilities and Carriers ("Division") seeking approval to issue Refunding Bonds in an amount sufficient to pay the principal of, interest on, and redemption price of, 2003 Series A and Series B Bonds, and to pay cost of issuance of the Refunding Bonds up to a par amount of \$26,995,000.

The application was filed in accordance with the requirements contained in Rule 14 of the Division's Rules of Practice and Procedure and 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 November 10, 2015. The hearing was conducted in the Division's hearing room, located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances:

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| For the PWSB: | Joseph A. Keough, Jr., Esq. |
| For the Division's Advocacy Section: | Karen Lyons, Esq. Special Assistant Attorney General |

PWSB proffered pre-filed direct testimony from three witnesses in support of its application. The witnesses were identified as Mr. James L. DeCelles, the PWSB's Chief Engineer; Ms. Maureen E. Gurghigian, Managing Director, First Southwest Company, 652 George Washington Highway, Lincoln, Rhode Island; and Mr. Christopher P.N. Woodcock, President of Woodcock & Associates, Inc., 18 Increase Ward Drive, Northborough, Massachusetts, a consulting firm specializing in water and wastewater rate and financial studies. Additionally, during the hearing, the PWSB also proffered its bond counsel, Karen S.D. Grande, Esq., to respond to certain bond "refunding" questions from the hearing officer.

Chief Engineer James DeCelles was proffered to support the PWSB's request for borrowing authority to issue Water System Refunding Revenue Bonds (the "Refunding Bonds") through the Rhode Island Infrastructure Bank ("RIIB"), the successor agency to the Rhode Island Clean Water Finance Agency to refund Water System Revenue Bonds that were previously issued in 2003 (2003 Series A and 2003 Series B) to take advantage of currently prevailing lower interest rates.

Chief DeCelles explained that in 2003, the City of Pawtucket issued \$19,340,000 in Water Revenue Bonds (2003 Series A), and \$7,655,000 in Taxable Water Revenue Bonds (2003 Series B) (collectively the "2003 Bonds"). He related that the 2003 Bonds were issued in conjunction with the PWSB's financing of its new water treatment plant and distribution system rehabilitation. Chief DeCelles testified that the PWSB now seeks to "refinance"

the 2003 Bonds “with the Refunding Bonds that have lower interest rates.”¹ Chief DeCelles testified that the PWSB is expected to save approximately \$3.73 million through the proposed refinancing.²

Ms. Maureen E. Gurghigian began her testimony by stating that First Southwest Company serves as financial advisor to many issuers of municipal debt in Rhode Island. She related that she has supervisory responsibility for First Southwest’s involvement with borrowings by the State of Rhode Island, numerous public agencies and 30 Rhode Island municipalities, including the city of Pawtucket. She testified that the firm currently serves more than 2000 municipalities and agencies, including more than 400 in New England. Ms. Gurghigian noted that her office assists clients with the origination of more than \$800 million in public financing issues each year.³

Ms. Gurghigian related that she has served as financial advisor to PWSB in previous bond approval cases before the Division. She related that she is currently providing assistance to PWSB with respect to the planned debt service issuance through RIIB.

Ms. Gurghigian testified that the PWSB is proposing to refinance the outstanding principal of its Series 2003 A&B bonds (the 2003 Bonds) with a refunding bond issue to take advantage of lower interest rates and lower debt service requirements. In explaining how the financing will work with the proposed refunding bonds, Ms. Gurghigian began by relating that the 2003

¹ PWSB Exhibit 1, DeCelles Testimony, pp. 2-3.

² *Id.*, p. 3, as amended from \$2.37 million during the hearing.

³ PWSB Exhibit 1, Gurghigian Testimony, pp. 1-2.

Bonds were not eligible for the State Revolving Fund subsidized interest rates and were therefore issued on a conduit basis by the Rhode Island Clean Water Finance Agency. Ms. Gurghigian next explained that the 2003 Bonds were amortized from years 21 to 30 to wrap their debt service around the PWSB's 20-year subsidized debt to smooth out debt service. Ms. Gurghigian testified that the Refunding Bonds will have a similar amortization; and that the RIIB will issue the Refunding Bonds on behalf of PWSB on a conduit basis.⁴

Ms. Gurghigian testified that the refunding is projected to refinance the \$19,340,000 of remaining principal of the 2003 Series A Bonds and \$7,655,000 of remaining principal of the 2003 Series B Bonds, for a total of \$26,995,000. She related that the average interest rate on the 2003 Bonds is approximately 5.28%. Based on updated rate assumptions identified during the hearing, *infra*, Ms. Gurghigian testified that in the current market, the Refunding Bond par amount would be approximately \$25,035,000 based upon a market premium of approximately \$3,098,229 and transfer of the Debt Service Reserve Fund Deposits from both 2003 Bond issues of approximately \$2,564,237 resulting in total projected sources of funds of approximately \$30,697,466.⁵

Ms. Gurghigian stated that the deposit to the Escrow Fund will be invested in U.S. Government Securities to pay the cost of redeeming the 2003

⁴ Id., p. 3.

⁵ Id. The dollar amounts contained in this paragraph reflect changes from the amounts initially identified in Ms. Gurghigian's pre-filed testimony. Some of these new values were addressed at the hearing and some were calculated post-hearing and offered by the PWSB to the hearing officer and the Division's Advocacy Section through a November 10, 2015 e-mail. The Division will accept the post-hearing new values as formal amendments to the record and consider these new values as collectively offered by agreement between the parties.

Bonds approximately 30 days after closing. She noted that current market rates and expected difference between coupons or stated interest rates and investor yields would result in payment of a premium to the PWSB. As a consequence, Ms. Gurghigian related that the Refunding is currently projected to be slightly lower in par value than we would expect under different market conditions. She explained that bond premiums occur when investors pay a purchase price for the bonds that is higher than the face amount. She emphasized that it “is purely market driven and the result is that a lower par amount (or principal amount) needs to be borrowed.” However, since that variable could change, Ms. Gurghigian recommended that the maximum par amount authorized be \$26,995,000.⁶

Ms. Gurghigian next discussed her interest rate assumptions. Initially, in her pre-filed testimony, she indicated that market rates for municipal bonds as of September 21, 2015 had been assumed for her analysis. She related that these rates ranged from coupons of 2.00% to 5.5% and yields of 0.70% to 5.445% for bonds maturing from 2025 to 2035. However, during the hearing Ms. Gurghigian updated her analysis with rate assumptions based on market rates as of November 3, 2015. Based on the updated assumptions, Ms. Gurghigian related that the “all in True Interest Cost (“TIC”), after consideration of a premium paid by investors is currently projected at approximately 3.94%” (down from her initial projection of 4.47%). She noted that this compares to an average interest cost of 5.28% on the 2003 Bonds. Ms. Gurghigian opined that

⁶ Id., p. 4.

to permit a refinancing to move forward should market conditions change, she recommended that the Division authorize a maximum TIC of 4.25% (down from her initial projection of 4.6%).

Regarding the issue of expected debt service, Ms. Gurghigian testified that the associated annual debt service “would range from \$1.25 to \$2.96 million in the current market based upon the original amortization” (down from her initial projection of \$1.33 to \$2.995 million). Ms. Gurghigian related that this compares to \$1.42 to \$3.23 million on the 2003 Bonds. Accordingly, based on the new more favorable November 3, 2015 market rates, Ms. Gurghigian projected that total savings would be approximately \$4.9 million over the life of the issue, which represents about \$3.73 million in net present value savings or more than 13% of the refunded principal. Ms. Gurghigian stressed that a minimum threshold of 3% net present value savings generally represents the standard for justifying such refundings.⁷

In closing, Ms. Gurghigian testified that the instant borrowing is expected to price in November and close in December 2015. In keeping with this schedule, Ms. Gurghigian opined that Division approval would be needed sometime in early November.⁸ In addition to her pre-filed testimony, Ms. Gurghigian also proffered the projected debt service schedules, a Capitalization Schedule, a draft of the Loan Agreement with RIIB, and a draft of the PWSB’s Ninth Supplemental Indenture.⁹

⁷ Id., pp. 4-5.

⁸ Id., p. 5.

⁹ Id., and Schedule MG-1.

Mr. Christopher P.N. Woodcock was primarily proffered to confirm that PWSB currently has sufficient rates to pay the debt service associated with this borrowing. Mr. Woodcock based his opinion on the fact that the proposed borrowing 'refinances' the PWSB's 2003 Bonds with Refunding Bonds that have lower interest rates.¹⁰

The Division's Advocacy Section did not proffer any witnesses in this docket. 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 the instant application request is reasonable and in the best interest of PWSB's ratepayers.

Now, therefore, it is

(22210) ORDERED:

1. That the October 21, 2015 application, filed by the Pawtucket Water Supply Board, which seeks Division approval, under R.I.G.L. §39-3-15, to issue Refunding Bonds in an amount sufficient to pay the principal of, interest on, and redemption price of, 2003 Series A and Series B Bonds, and to pay cost of issuance of the Refunding Bonds up to a par amount of \$26,995,000, is hereby approved.

¹⁰ PWSB Exhibit 1, Woodcock Testimony, p. 3.

2. That the Division hereby makes this approval contingent upon the Pawtucket Water Supply Board's use of the debt service allowance previously approved by the Commission, or if subsequently required, by additional debt service allowances approved by the 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 NOVEMBER 12, 2015.



John Spirito, Jr., Esq.
Hearing Officer

APPROVED:



Thomas F. Ahern
Administrator