

**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 Bonds In An : Docket No. D-15-21  
Amount Not To Exceed \$5,907,000 :

**REPORT AND ORDER**

On May 22, 2015, the Pawtucket Water Supply Board (“PWSB”), filed an application with the Rhode Island Division of Public Utilities and Carriers (“Division”) seeking authority to enter into long-term debt and issue revenue bonds in an amount not to exceed \$5,907,000 as part of a Rhode Island Drinking Water State Revolving Fund (“DWSRF”) loan from the Rhode Island Clean Water Finance Agency (“RICWFA”). 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.

The application indicates that PWSB seeks to borrow approximately \$5,907,000 from the RICWFA to finance distribution system improvements to the PWSB System.<sup>1</sup>

---

<sup>1</sup> The Division notes that the instant filing was preceded by eight similar filings made on December 4, 2003, February 6, 2004, January 7, 2005, December 19, 2006, September 3, 2009, August 11, 2011, April 10, 2012 and February 28, 2013. In the December 4, 2003 filing, the PWSB sought Division authority to borrow approximately \$30 million from the RICWFA to “defease” or “prepay” its then current debt obligations to the Pawtucket Public Buildings Authority. The Division approved this filing on December 16, 2003, through Report and Order No.17635. In the February 6, 2004 filing, the PWSB sought Division authority to borrow approximately \$43 million from the RICWFA to finance improvements to the PWSB’s water system. The Division approved this filing on February 27, 2004, through Report and Order No.17764. In the January 7, 2005 filing, the PWSB sought Division authority to borrow approximately \$35 million from the RICWFA to finance treatment plant improvements, sedimentation facilities replacement, cleaning and relining of transmission lines, construction projects in accordance with the PWSB’s Capital Improvement Plan, and all attendant expenses,

In response to the application filing, the Division conducted a duly noticed public hearing on June 11, 2015. 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:                           | Joseph A. Keough, Jr., Esq.                             |
| For the Division's<br>Advocacy Section: | Karen Lyons, Esq.<br>Special Assistant Attorney General |

PWSB proffered 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

---

including, but not limited to the design build contract for the treatment plant and engineering costs. The Division approved this previous filing on February 2, 2005, through Report and Order No.18134. In the December 19, 2006 filing, the PWSB sought Division authority to borrow approximately \$1.9 million from the RICWFA to finance improvements to the PWSB System, including, but not limited to, the purchase of approximately 23,000 meter interface units. Subsequently, however, the PWSB decided to withdraw this application, which was approved by the Division on January 17, 2007, through Report and Order No.18831. In the September 3, 2009 filing, the PWSB sought Division authority to borrow approximately \$5.9 million from the RICWFA to finance distribution and other miscellaneous improvements to the PWSB System. The Division approved this previous filing on September 23, 2009, through Report and Order No.19770. In the August 11, 2011 filing, the PWSB sought Division authority to borrow approximately \$7,485,000 from the RICWFA to finance distribution and other miscellaneous improvements to the PWSB System. The Division approved this previous filing on September 13, 2011, through Report and Order No. 20470. In the April 10, 2012 filing, the PWSB sought Division authority to borrow approximately \$1,955,000 from the RICWFA to finance its ongoing water main replacement project, and specifically to replace approximately 31,000 feet of existing water pipes, which have been in service for over one hundred years. The Division approved this previous filing on May 3, 2012, through Report and Order No. 20720. Lastly, in the February 28, 2013 filing, the PWSB sought Division authority to borrow approximately \$8,645,000 from the RICWFA to again finance its ongoing water main replacement project, and specifically to replace approximately 60,000 feet of existing water pipes. The Division approved this previous filing on March 26, 2013, through Report and Order No. 20993.

Drive, Northborough, Massachusetts, a consulting firm specializing in water and wastewater rate and financial studies.

Chief Engineer James DeCelles was proffered as a supporting witness to discuss why PWSB has requested approval to borrow approximately \$5,907,000 from the RICWFA. Mr. DeCelles testified that PWSB will use the proceeds from this borrowing for its ongoing water main replacement program, and specifically to replace approximately 33,000 feet of existing water pipes. Mr. DeCelles related that the project consists mainly of replacing aging 6" and 8" unlined cast iron piping installed in the early 1900's. He explained that this piping has become "very tuburculated" over the years and has resulted in decreasing carry capacity as well as water quality problems. Mr. DeCelles testified that the new pipes will be cement-lined ductile iron "and will significantly increase the flow capacity as well as eliminate water quality issues associated with unlined cast iron." Mr. DeCelles testified that the project has an estimated total cost of approximately \$5,389,413.<sup>2</sup>

Mr. DeCelles also testified that PWSB identified these projects in its capital program, and that they are listed on the Rhode Island Department of Health's Project Priority List, which Mr. DeCelles related qualifies the projects for a subsidized Drinking Water State Revolving Fund loan through RICWFA.<sup>3</sup>

As in previous related dockets, 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

---

<sup>2</sup> PWSB Exhibit 1, DeCelles Testimony, pp. 1-2.

<sup>3</sup> PWSB Exhibit 1, DeCelles Testimony, p. 2.

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.<sup>4</sup>

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 loan from the RICWFA. Ms. Gurghigian confirmed that the proposed \$5,907,000 borrowing from the RICWFA is needed to finance distribution main improvements. Ms. Gurghigian explained that of the \$5,907,000 loan amount, approximately \$5,389,413 will be available for project funds, and approximately \$408,403 will fund the Debt Service Reserve Fund as required by PWSB's Indenture of Trust. She stated that an additional \$109,184 is allocated for costs of issuance on the local level, including rating agency fees, bond counsel, financial advisor and trustee fees, and the RICWFA origination fee.<sup>5</sup>

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 related that the fund uses federal capitalization grants and state matching funds to provide

---

<sup>4</sup> PWSB Exhibit 1, Gurghigian Testimony, pp. 1-2.

<sup>5</sup> Id., pp. 2-3.

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 emphasized that the DWSRF has provided a significant portion of the funding for PWSB's capital program. She also explained that after the RICWFA receives the capitalization grants from the federal government and the State's matching funds, the RICWFA sells bonds in the public market and loans the proceeds to its drinking water borrowers pursuant to loan agreements.<sup>6</sup> 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.<sup>7</sup>

Ms. Gurghigian next testified that the term of the requested borrowing is 20 years. She explained that once the construction funds are fully drawn down, the PWSB will have 20 years to repay the loan. Ms. Gurghigian noted that the full term including the construction period is not expected to exceed 23 years.<sup>8</sup> Ms. Gurghigian related that based upon current market conditions, it is anticipated that the loan will not exceed a market rate of 3.887%, which she stated would result in a projected blended subsidized rate of approximately 2.499%. However, for the purpose of Division approval, Ms. Gurghigian recommended a not-to-exceed market rate of 4.0% to allow for market rate fluctuation, and a not-to-exceed subsidized rate of 3.20%.<sup>9</sup>

---

<sup>6</sup> *Id.*, p. 3.

<sup>7</sup> *Id.*, p. 4.

<sup>8</sup> *Id.*, p. 3.

<sup>9</sup> *Id.*

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 June 2015. Ms. Gurghigian noted that the RICWFA requires that all borrower approvals be in place prior to pricing loans. She added that a decision by the Division before June 15, 2015 would enable PWSB to meet the RICWFA's deadlines.<sup>10</sup>

Ms. Gurghigian also proffered a debt service schedule with her pre-filed testimony. She testified that for the \$5,907,000 loan, annual debt service is expected to increase by approximately \$410,000 per year.<sup>11</sup>

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 debt service schedule provided by Ms. Gurghigian, "and assuming the interest rates provided in her testimony, the current interest rates in combination of the PWSB's authorized debt service funding, and its debt service stabilization fund balances provide sufficient revenues into FY2016 to cover their expected expenses."<sup>12</sup>

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.

---

<sup>10</sup> Id., p. 4.

<sup>11</sup> Id., p. 4 and transcript; also Schedule MG-1.

<sup>12</sup> PWSB Exhibit 1, Woodcock Testimony, p. 3.

FINDINGS

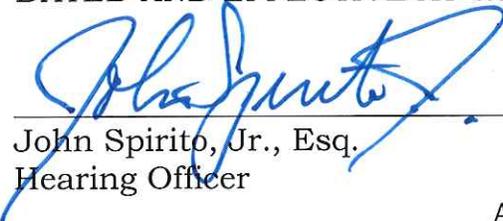
Predicated on a careful examination of the record in this matter, the Division finds that the instant application request is reasonable and in the best interest of PWSB's ratepayers.

Now, therefore, it is

(21938) ORDERED:

1. That the May 22, 2015 application, filed by the Pawtucket Water Supply Board, which seeks Division approval, under R.I.G.L. §39-3-15, to enter into long-term debt and issue revenue bonds in an amount not to exceed \$5,907,000 as part of a Rhode Island Drinking Water State Revolving Fund ("DWSRF") loan from the Rhode Island Clean Water Finance Agency, is hereby approved as filed.
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 JUNE 12, 2015.

  
\_\_\_\_\_  
John Spirito, Jr., Esq.  
Hearing Officer

APPROVED:

  
\_\_\_\_\_  
Thomas F. Ahern  
Administrator