



The KCWA proffered two witnesses in support of its application. The witnesses were identified as Mr. Timothy J. Brown, P.E., KCWA's General Manager/Chief Engineer; and Ms. Maureen E. Gurghigian, Managing Director at First Southwest Company.

Mr. Brown testified that KCWA is requesting approval to borrow sufficient funds for a short-term period of seven years to assist in the completion of current contracted infrastructure renewal and replacement (IFR) programs. Mr. Brown explained that KCWA plans to "leverage a portion of the monthly IFR restricted deposit for principal and interest" to allow for the completion of these projects. He related that such "[a]lternative funding is actually considered an option in the Rules and Regulations for Clean Water Infrastructure Plans."<sup>2</sup>

Mr. Brown testified that KCWA "is in great need of IFR replacements of our distribution infrastructure and a deteriorated wellfield." He related that the East Greenwich well collapsed over two years ago and "we have struggled to replace it without the need to relocate or re-drill in the field." He noted that KCWA must also address flooding that occurs in this area. Mr. Brown explained that this well is the second source of water to a major portion of the system's southern customers and must be relied upon if the system's main source of water supply is interrupted. Mr. Brown described this project as KCWA's "highest priority IFR program."<sup>3</sup>

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<sup>2</sup> Id., Brown Testimony, pp. 1-2.

<sup>3</sup> Id., p. 2.

Mr. Brown further testified that the funding is also necessary to complete four other contracts, which he stated are in various stages of completion. He related that these four projects “are addressing very poor current distribution systems, substandard sizing, age, and dead end water quality concerns.” He also noted that KCWA has had to deal with a ruptured water main over a major highway bridge crossing.<sup>4</sup> Mr. Brown thereupon provided details regarding these additional needed repair and replacement projects.<sup>5</sup>

Mr. Brown explained that due to the fact that some of these projects are “interconnected with each other” it is necessary to complete these projects contemporaneously, which he explained is the reason to borrow additional funds rather than completing one project at a time. He offered examples of some of the interconnections between these projects to buttress KCWA’s decision to borrow additional funds in lieu of utilizing a pay-as-you-go funding approach.<sup>6</sup>

Mr. Brown next discussed the reason for using short-term borrowing. He related that short-term borrowing “will keep the IFR program functioning” and permit KCWA to complete one emergency program, the East Greenwich Well, and keep the four other IFR projects contracted. He testified that the “cash that will accumulate within the restricted account, not used for “debt” service, will allow KCWA to develop a continuing program of the essential infrastructure

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<sup>4</sup> Id., pp. 2-3.

<sup>5</sup> Id., pp. 3-4.

<sup>6</sup> Id., pp. 4-5.

improvements.”<sup>7</sup> He added that the selected seven-year term represents “a flexible payback period,” which provides more options as to programming and interest savings during the term of the borrowing.<sup>8</sup> Mr. Brown also noted that the interest costs associated with this borrowing “are low,” and may be offset against the “inflation on construction costs [that] may have more of an effect than interest cost when projects are done in later years than earlier years.”<sup>9</sup>

Ms. Gurghigian testified that First Southwest Company provides financial advisory services to issuers of municipal debt, and serves as the KCWA’s financial advisor in this matter. Ms. Gurghigian related that she has supervisory responsibility for First Southwest’s involvement with borrowings by the State of Rhode Island, numerous public agencies and 20 Rhode Island municipalities. Ms. Gurghigian testified that First Southwest’s Rhode Island office assists clients with the origination of more than \$800 million in public financing issues each year. Ms. Gurghigian testified that she serves as Financial Advisor to the KCWA.<sup>10</sup>

Ms. Gurghigian testified that through the instant filing the KCWA is seeking to obtain a loan of up to \$12 million dollars for various projects in KCWA’s IFR program. She noted that given the short amortization period involved with this borrowing, KCWA will seek proposals to fund the loan from banks.

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<sup>7</sup> Id., p. 5.

<sup>8</sup> Id., p. 6.

<sup>9</sup> Id.

<sup>10</sup> KCWA Exhibit 1, Gurghigian Testimony, pp. 1-2.

Ms. Gurghigian testified that based on current market conditions, “we would expect an interest rate in the range of 2.75%” for this 7-year term loan. Based on market uncertainties however, Ms. Gurghigian is recommending approval for “a maximum rate of 3.25%.”<sup>11</sup>

Ms. Gurghigian next testified that through this borrowing there will be approximately \$10,730,000 available for project funds, and that approximately \$1,200,000 will be set aside in the debt service reserve fund. She also related that approximately \$70,000 is allocated for costs of issuance, including rating agency fees, bond counsel, financial advisor, and trustee fees.<sup>12</sup>

Ms. Gurghigian further testified that the approximate annual debt service for the proposed borrowing is \$1,900,000. She proffered a debt service schedule with her testimony.<sup>13</sup> To further support her testimony and financial analysis, Ms. Gurghigian also proffered copies of the KCWA’s General Bond Resolution and KCWA’s Supplemental Resolution. She also proffered a draft RFP to banks.<sup>14</sup>

The Division’s Advocacy Section did not proffered any witnesses in this docket. After a review of the filing and a brief cross-examination of the KCWA’s witnesses, the Advocacy Section stated for the record that it was satisfied from the evidence presented, that the KCWA 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.

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<sup>11</sup> Id., p. 2.

<sup>12</sup> Id.

<sup>13</sup> Id., p. 3 and Schedule MG-1.

<sup>14</sup> Id. and attachments.

FINDINGS

Predicated on a careful examination of the record in this matter, the Division finds that the KCWA's application seeking authority to issue revenue bonds, not to exceed \$12,000,000, for the purpose of funding the completion of current contracted infrastructure renewal and replacement projects, is reasonable and in the best interest of KCWA's ratepayers.

Now, therefore, it is

(22682) ORDERED:

1. That the Kent County Water Authority's January 31, 2017 application, which seeks Division approval under R.I.G.L. §39-3-15, to issue revenue bonds, not to exceed \$12,000,000, for the purpose of funding the completion of current contracted infrastructure renewal and replacement projects, is hereby approved as filed.
2. 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 FEBRUARY 24, 2017.



John Spirito, Jr., Esq.  
Hearing Officer

APPROVED: \_\_\_\_\_



Macky McCleary  
Administrator