

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

IN RE:           City of Woonsocket Water Division           :  
                  Application for Authority to Issue           : Docket No. D-18-06  
                  Long-Term Debt                                   :

**REPORT AND ORDER**

On May 11, 2018, the City of Woonsocket Water Division (“WWD” or “City”) 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 \$44,750,000 as part of a Rhode Island Drinking Water State Revolving Fund (“DWSRF”) loan from the Rhode Island Infrastructure Bank (“RIIB”). The application indicates that WWD seeks to borrow \$44,750,000 from the RIIB “for phases two (2) and three (3) of borrowings, required to support the City’s construction of a new water treatment facility.” 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 response to the application filing, the Division conducted a duly noticed public hearing on July 16, 2018. The hearing was conducted in the Division’s hearing room, located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances:

For the WWD:                           Alan M. Shoer, Esq. and Nicole M. Verdi, Esq.

For the Division's  
Advocacy Section: Christy Hetherington, Esq.  
Special Assistant Attorney General

WWD's Direct Case

WWD proffered two witnesses in support of its application. The witnesses were identified as Mr. David G. Bebyn, CPA, President of B & E Consulting, LLC., 21 Dryden Lane, Providence, Rhode Island; and Ms. Maureen E. Gurghigian, Managing Director, Hilltop Securities, Inc, 12 Breakneck Hill Road, # 200, Lincoln, Rhode Island. Both witnesses submitted pre-filed direct testimony in this docket.

Mr. David Bebyn related that the purpose of his testimony is to provide background information on the new debt requirements for WWD for the next two phases of borrowings related to the construction of the WWD's new "Water Treatment Facility." Mr. Bebyn explained that the details associated with the New Treatment Facility were discussed in the testimonies of Jon Pratt and Robert Otoski in WWD's last financing request case before the Division in Docket No. D-17-43.<sup>1</sup>

Mr. Bebyn testified that the \$12,500,000 from Docket No. D-17-43 and the \$44,750,000 from this request will finance \$53,250,000 in project costs for the new Water Treatment Facility, as well as interest accrued on the borrowing during the construction period, and the costs of issuance, including, the costs for bond insurance and a debt service reserve fund surety. He related that the City just recently borrowed the already approved \$12,500,000, in June

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<sup>1</sup> WWD Exhibit 1, Bebyn Testimony, p. 1.

of 2018, and now plans to borrow approximately \$17,000,000 in August of 2018, and the final loan amount of \$27,700,000 in the spring of 2019.<sup>2</sup>

Mr. Bebyn testified that the next borrowing amounts of \$16,971,000, scheduled for August of 2018, and \$27,673,000, scheduled for early 2019, will be used as follows:

Deposit in Construction Fund: \$16,634,916

Capitalized Interest: 0

Bond Insurance: 66,885

Debt Service Reserve Fund Surety: 34,489

Cost of Issuance – Local Level: 234,710

**Total: \$16,971,000**

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Deposit in Construction Fund: \$24,898,737

Capitalized Interest: 2,246,642

Bond Insurance: 120,473

Debt Service Reserve Fund Surety: 65,409

Cost of Issuance – Local Level: 341,739

**Total: \$27,673,000<sup>3</sup>**

Mr. Bebyn next discussed interest rates. He related that the interest rates used in Ms. Gurghigian's testimony anticipates that the interest on the phase two loan will be calculated using the revenue market rate not to exceed 4.3%, which would result in a projected subsidized rate of approximately 3.1%.

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

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

He noted that “[f]or the purpose of Division approval,” Ms. Gurghigian recommends a not-to-exceed market rate of 4.8% to allow for market rate fluctuation, and a not-to-exceed subsidized rate of 3.7%. Mr. Bebyn opined: “this is the cheapest rate available to WWD.”<sup>4</sup>

Regarding the phase three loan, Mr. Bebyn testified that this loan will be calculated using the revenue market rate not to exceed 4.5%, which would result in a projected subsidized rate of approximately 3.7%. Mr. Bebyn related that for this docket Ms. Gurghigian recommends a not-to-exceed market rate of 5.3% to allow for market rate fluctuation, and a not-to-exceed subsidized rate of 4.5%.<sup>5</sup>

Mr. Bebyn next explained that the drawdown period for phase two and phase three will be for fifteen months. He related that the repayment periods will be over 20 years with full amortization over the 20-year period; there will be no balloon payment due at the end of the 20 years for either phase. Mr. Bebyn testified that the debt service on the phase 2 loan “will be designed to include level annual payments for the first four years of less than \$520,000 and afterwards that range from a low of \$1,358,975 in the eighth year of the payment period (FY2025) to a high of \$1,359,895 in the ninth year of the payment period (FY 2026).”<sup>6</sup>

He further explained that the debt service on the phase three loan “will be designed to include level annual payments for the first four years of less than \$800,000, which uses capitalized interest, and afterwards that range from

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<sup>4</sup> *Id.*, p. 3.

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*, pp. 3-4.

a low of \$1,271,105 in the fifth year of the payment period (FY2023) to a high of \$4,947,795 in the twentieth year of the payment period (FY 2038).”<sup>7</sup>

Mr. Bebyn testified that this loan structure was recommended to meet the timing of the project along with the desire of the City to minimize the rate impact to the ratepayers by allowing the rates to be phased in over a five-year period. He added: “[t]his structuring also takes advantage of two of the WWD’s existing debt obligations being paid off during the sixth and seventh year of the new WTP debt (FY 2025 & FY 2026).” Mr. Bebyn related that because of this structure, WWD’s debt service would peak in FY 2023 at \$4,948,000.<sup>8</sup>

Mr. Bebyn made it clear that WWD does not have enough debt service money to cover all the payments on these loans from the debt service reserve. He stated that until WWD secures approval for additional rates from the Commission, it will allocate part of its IFR funding to cover the debt service requirements. He explained that the loan has been structured “in a way that these two sources of funding (debt service and IFR) would be able to cover the first three years of these two borrowings.” He also stated that WWD plans on making a multi-year rate filing with the Commission shortly. Mr. Bebyn opined that the terms of this borrowing are “absolutely” in the interest of WWD’s ratepayers.<sup>9</sup>

As in previous related dockets, Ms. Maureen E. Gurghigian began her testimony by stating that Hilltop Securities, Inc. serves as financial advisor to many issuers of municipal debt in Rhode Island. She related that she has

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<sup>7</sup> Id., pp. 3-4.

<sup>8</sup> Id., p. 4.

<sup>9</sup> Id., pp. 4-6.

supervisory responsibility for Hilltop Securities, Inc.'s involvement with borrowings by numerous public agencies and approximately 20 Rhode Island municipalities. Ms. Gurghigian noted that her office assists clients with the origination of more than \$800 million in public financing issues each year.<sup>10</sup>

Ms. Gurghigian related that she has served as financial advisor to WWD in previous bond approval cases before the Division. She related that she is currently aiding WWD with respect to the planned loan from the RIIB. She testified that WWD seeks to obtain two loans totaling up to \$44,750,000, currently projected to be \$16,971,000 for phase two and \$27,673,000 for phase three funding from the RIIB DWSRF. She testified that these borrowings are for the second and third phases of financing for the new Drinking Water Treatment Plant and other related improvements to the WWD Water System.<sup>11</sup>

Ms. Gurghigian also testified that the \$12,500,000 from Docket No. D-17-43 and the \$44,750,000 from this request for approval will finance \$53,250,000 in project costs for the new Water Treatment Facility, interest on the borrowing during the construction period and the costs of issuance, including, without limitation, the costs for bond insurance and a debt service reserve fund surety. She related that the City recently borrowed the already approved \$12,500,000 in June, and expects to go forward with the phase two borrowing in the fall of 2018 and the phase three borrowing in the spring of 2019.<sup>12</sup>

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

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

<sup>12</sup> Id., pp. 2-3.

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 administered by the RIIB to provide financial assistance to water suppliers. She 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 the RIIB sells bonds in the public market and loans the proceeds to its drinking water borrowers pursuant to loan agreements. Ms. Gurghigian related that WWD has identified these projects in its capital program, and they are listed on the Rhode Island Department of Health's Project Priority List. Ms. Gurghigian consequently opined that the projects in issue qualify for a subsidized DWSRF loan through RIIB.<sup>13</sup>

Ms. Gurghigian testified that the term of the requested borrowing is 20 years. She explained that once the construction funds are fully drawn down, WWD will have 20 years to repay the loan.<sup>14</sup> Ms. Gurghigian testified that based upon current market conditions, it is anticipated that the phase two loan will not exceed a market rate of 4.3%, which, she related, would result in a subsidized rate of approximately 3.1%. For the purpose of Division approval, however, Ms. Gurghigian recommended "a not-to-exceed market rate of 4.8% to allow for market fluctuation, and a not-to-exceed subsidized rate of 3.7%.

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<sup>13</sup> Id., p. 3.

<sup>14</sup> Id., p. 3.

Ms. Gurghigian also testified that it is anticipated that the phase three loan will not exceed a market rate of 4.5%, which, she related, would result in a subsidized rate of approximately 3.7%. For the purpose of Division approval, however, Ms. Gurghigian recommended “a not-to-exceed market rate of 5.3% to allow for market fluctuation, and a not-to-exceed subsidized rate of 4.5%.<sup>15</sup>

Ms. Gurghigian also proffered a breakdown of how the funds will be disbursed. She presented the following details:

	<u>Phase 2 Loan</u>	<u>Phase 3 Loan</u>
Deposit in Construction Fund	\$16,634,916	\$24,898,737
Bond Insurance	66,885	120,473
Debt Service Reserve	34,489	65,409
Capitalized Interest	0	2,246,642
Cost of Issuance	234,710	341,730 <sup>16</sup>

Ms. Gurghigian testified that the phase two borrowing is expected to close in August 2018. She explained that the RIIB requires that all borrower approvals be in place prior to pricing loans. Ms. Gurghigian related that a Division approval by July would put the City in a position to meet the RIIB schedule.<sup>17</sup>

Ms. Gurghigian also proffered a debt service schedule with her pre-filed testimony. Ms. Gurghigian noted that while the schedule attached to her testimony projects the impact of the new borrowing, “it is subject to change based on the actual construction costs, draw schedule and prevailing interest rates at the time of borrowing.”<sup>18</sup>

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<sup>15</sup> Id.

<sup>16</sup> Id., p. 4.

<sup>17</sup> Id., p. 4.

<sup>18</sup> Id., pp. 4-5 and Schedule MG-1.

### Advocacy Section Position

The Division's Advocacy Section did not present any witnesses in this docket. After a thorough cross-examination of the WWD's two witnesses, the Advocacy Section stated for the record that it was satisfied from the evidence presented, that the WWD had met the requisite burden of proof set forth in R.I.G.L. §39-3-15, et seq. and that the proposed bond issuance and borrowing were in the public interest.

### FINDINGS

Predicated on a careful examination of the record in this matter, the Division finds that WWD's application seeking authority to enter into long-term debt and issue revenue bonds in an amount not to exceed \$44,750,000 as part of a DWSRF loan from the RIIB for the purpose of supporting the construction of a new water treatment facility is in the best interest of ratepayers.

Now, therefore, it is

(23219) ORDERED:

1. That the City of Woonsocket Water Division's May 11, 2018 application seeking Division approval under R.I.G.L. §39-3-15 to borrow an amount not to exceed \$44,750,000 through revenue bonds sold by the RIIB for the State's DWSRF, is hereby approved.
2. That the Division hereby makes this approval contingent upon the WWD'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 JULY 18, 2018.

  
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John Spirito, Jr., Esq.  
Hearing Officer

APPROVED:   
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Macky McCleary  
Administrator