

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

IN RE: City of Newport Water Division :
Application to Incur Long-Term Debt : Docket No. D-20-02

REPORT AND ORDER

On February 20, 2020, the City of Newport, acting by and through the Newport Water Division ("Newport Water") 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 \$4,131,000 as part of a Rhode Island Drinking Water State Revolving Fund ("DWSRF") loan from the Rhode Island Infrastructure Bank ("RIIB"). The application reflects that Newport Water plans to use the funding from this borrowing to finance distribution system improvements. The application was filed in accordance with the requirements contained in Section 39-3-15 of the Rhode Island General Laws and Section 14 of the Division's *Rules of Practice and Procedure*.¹

In response to the application filing, the Division conducted a duly noticed public hearing on April 7, 2020. The hearing was conducted in the Division's hearing room, located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances:

For Newport Water:

Joseph A. Keough, Jr., Esq.

¹ The application was entered on the record as Newport Water Exhibit 1.

For the Division's
Advocacy Section:

Tiffany Parenteau, Esq.
Special Assistant Attorney General

Newport Water proffered three witnesses in support of its application. The witnesses were identified as Ms. Julia Forgue, P.E., the Director of Utilities for the City of Newport; Ms. Maureen E. Gurghigian, Regional Managing Director, Hilltop Securities, Inc., 652 George Washington Highway, Lincoln, Rhode Island; and Mr. Harold J. Smith, Vice President of Raftelis Financial Consultants, Inc., 227 West Trade Street, Charlotte, North Carolina, a consulting firm specializing in the areas of water and wastewater finance and pricing.

Utilities Director, Julia Forgue was proffered as a supporting witness to discuss why Newport Water has requested approval to borrow approximately \$4,131,000 from the RIIB to finance distribution system improvements. She testified that the funds will be used for water main improvements, and more specifically, for the cleaning and lining of 3100 feet of 2-inch cast iron main in Annandale Road and 1700 feet of 20-inch cast iron water main in Narragansett Avenue.²

In further support of its filing, Ms. Forgue testified that Newport Water has provided a number of documents with its application filing. She identified the documents as: (1) Capitalization Schedule; (2) Newport Water Revenue Bond Trust Indenture; (3) Draft of the Seventh Supplemental Indenture; and (4) Draft of the Loan Agreement with RIIB.³

² Newport Water Exhibit 1, Forgue Testimony, p. 2.

³ *Id.*, p. 3; and Appendix to Newport Water Exhibit 1.

Ms. Forgue also testified that the Public Utilities Commission has approved rates necessary to service his loan. She indicated that Mr. Smith's testimony further addresses this issue, *infra*.⁴

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 supervisory responsibility for Hilltop Securities, Inc.'s involvement with borrowings by numerous public agencies and more than 25 Rhode Island agencies and municipalities, including the city of Newport. Ms. Gurghigian noted that her office assists clients with the origination of more than \$800 million in public financing issues each year.⁵

Ms. Gurghigian related that she has served as financial advisor to Newport Water in previous bond approval cases before the Division. She related that she is currently providing assistance to Newport Water with respect to the planned loan from the RIIB. She testified that the proposed \$4,131,000 borrowing from the RIIB is needed to finance distribution system improvements.⁶

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 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

⁴ *Id.*, p. 3.

⁵ PWSB Exhibit 1, Gurghigian Testimony, pp. 1-2.

⁶ *Id.*, pp. 2-3.

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 emphasized that the DWSRF is providing a significant portion of the funding for Newport Water's capital program.⁷

Ms. Gurghigian testified that the term of the requested borrowing is 20 years. She explained that once the construction funds are fully drawn down, Newport Water 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.⁸ Ms. Gurghigian testified that based upon current market conditions, it is anticipated that the loan will not exceed a market rate of 3.61%, which, she related, would result in a subsidized rate of approximately 2.66%. For the purpose of Division approval, however, Ms. Gurghigian recommended "a not-to-exceed market rate of 3.85% to allow for market fluctuation, and a not-to-exceed subsidized rate of 2.90%.⁹

With respect to how the funds would be disbursed, Ms. Gurghigian related that approximately \$3,775,000 will be available for project funds. Additionally, approximately \$275,000 will be set aside in the debt service reserve fund; and approximately \$81,000 is allocated for costs of issuance, including rating agency fees, bond counsel, financial advisor and trustee fees, and the RIIB origination fee.¹⁰

⁷ *Id.*, p. 3.

⁸ *Id.*, p. 3.

⁹ *Id.*, 3-4 and Transcript.

¹⁰ *Id.*, p. 4.

Ms. Gurghigian testified that this borrowing is expected to price in May 2020. She explained that the RIIB requires that all borrower approvals be in place prior to pricing loans. Ms. Gurghigian related that a Division approval in April would put Newport in a position to meet the RIIB schedule.¹¹

Ms. Gurghigian also proffered a debt service schedule with her pre-filed testimony. She testified that for the \$4,131,000 debt, annual debt service is expected to increase by approximately \$274,000 including RIIB annual fees per year for the borrowing.¹²

Mr. Harold Smith testified that the proposed borrowing, totaling \$4,131,000, would not have any immediate impact on Newport Water's rates. He testified that based on the debt service schedule proffered by Ms. Gurghigian, and assuming the interest rates provided in her testimony, the combination of the Newport Water's current debt service funding, debt service stabilization, and IFR funding approved by the Public Utilities Commission "will sufficiently cover Newport's existing debt obligations, the proposed borrowing, as well as the coverage requirements."¹³

The Division's Advocacy Section did not present any witnesses in this case. After a brief cross-examination of Providence Water's witnesses, the Advocacy Section stated for the record that it was satisfied from the evidence presented, that Providence Water 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.

¹¹ Id.

¹² Id.

¹³ Id., pp. 2-3.

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 Newport Water's ratepayers.

Now accordingly, it is

(23802) ORDERED:

1. That the February 20, 2020 application, filed by the City of Newport, acting by and through the Newport Water Division, 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 \$4,131,000 to finance distribution system improvements, is hereby approved as filed.
2. That the Division hereby makes this approval contingent upon the Newport Water'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 April 8, 2020.



John Spirito, Jr., Esq.
Hearing Officer

APPROVED: 

Linda George, Esq.
Acting Administrator