

**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 For Authority to Incur Debt : Docket No. D-05-1

REPORT AND ORDER

On January 7, 2005, the City of Pawtucket, acting by and through 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 \$35,000,000 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 PWSB application indicates that the City of Pawtucket seeks to borrow approximately \$35,000,000 from the RICWFA to finance improvements to the PWSB System, including, but not limited to, 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, including, but not

limited to the design build contract for the treatment plant and engineering costs.¹

In response to the application filing, the Division conducted a duly noticed public hearing on February 1, 2005. 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
Advocacy Section: Leo J. Wold, Esq.
Special Assistant Attorney General

The PWSB proffered one witness in support of its application. The witness was identified as Ms. Maureen E. Gurghigian, Senior Vice President, First Southwest Company, 652 George Washington Highway, Lincoln, Rhode Island. Ms. Gurghigian submitted pre-filed direct testimony in this docket. Additionally, in response to a request made at the hearing from the Division's Advocacy Section, the PWSB did offer its General Manager and Chief Engineer, Ms. Pamela Marchand, P.E. to answer some questions about several of the PWSB's projects.

Ms. Gurghigian, whose company provides advisory services to issuers of municipal debt, testified that she is providing assistance to the PWSB with

¹ The Division notes that the instant filing was preceded by two similar filings made on December 4, 2003 and February 6, 2004. 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 previous 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 previous filing on February 27, 2004, through Report and Order No.17764.

respect to financing the balance of the construction of the PWSB's new treatment plant ("WTP") and cleaning and lining and other capital projects for the PWSB's water distribution system. She noted that the PWSB borrowed \$43,450,000 for the first phase of the WTP construction project.²

Ms. Gurghigian testified that if the full \$35 million is borrowed, approximately \$30 million will be available for project funds (approximately \$5.2 million going to the balance needed for the WTP project); approximately \$2.54 million will fund the Debt Service Reserve Fund as required by the PWSB's Indenture of Trust; an additional \$1.75 million will be allocated for capitalized interest and costs of issuance; and approximately \$350,000 will be allocated for municipal bond insurance.³

After a discussion on how Safe Drinking Water State Revolving Fund borrowings are administered by the RICWFA, Ms. Gurghigian apprised the Division of the applicable schedules and deadlines for this financing. She related that the bonds to be issued by the RICWFA are scheduled to be "priced" on or about February 28, 2005 (she noted that currently the interest rates are projected to average 3.5%). Ms. Gurghigian testified that the RICWFA will require the PWSB to enter into its loan agreement prior to pricing of the bonds. She added that the RICWFA also requires the PWSB to have Division approval before the PWSB may enter to the loan agreement. For this reason, Ms.

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

³ *Id.*, pp. 2-3.

Gurghigian related that the PWSB needs the Division to issue its decision on or before February 17, 2005.⁴

Ms. Gurghigian related that the PWSB has already received the necessary debt service funding from the Public Utilities Commission (“PUC”) for this borrowing. She noted that the PUC approved a debt service amount of \$3,414,969 in a previous decision in Docket No. 3593 (Order No. 17930), which she noted will become effective in April 2005.⁵

Ms. Gurghigian also testified that the Net Debt service on the 2005 bonds is projected at \$1.2 million in fiscal year 2007 and \$2.5 million annually for the fiscal years 2008 through 2026. She related that these estimates assume subsidized interest rates averaging 3.50%, which she indicated reflects a market rate of approximately 4.7%. Ms. Gurghigian also provided a schedule that summarizes the total debt service associated with the instant borrowing; and a schedule that summarizes the impact of the proposed borrowing on the PWSB’s existing debt structure.⁶

Ms. Gurghigian also provided some details on the issuance costs related to the borrowing. She first noted that the RICWFA’s loan policies and federal guidelines permit the utilization of loan proceeds to fund issuance-related costs. She stated that the issuance costs will include origination fees for the RICWFA, Bond Counsel, Agency Counsel and Financial Advisor. She related that the PWSB’s costs include Borrower Bond Counsel and engineering and

⁴ Id., pp. 3-4; and Transcript.

⁵ Id., p. 4.

⁶ Id., and Schedules MG-1 and MG-2.

advisory fees and trustee fees. Ms. Gurghigian testified that the overall cost of issuance (exclusive of bond insurance) is estimated at 1.5% of the total loan amount.⁷

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

Now, therefore, it is

(18134) ORDERED:

1. That the January 7, 2005 application, filed by the City of Pawtucket, acting by and through 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 \$35,000,000 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.

⁷ Id., p. 4.

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 FEBRUARY 2, 2005.

John Spirito, Jr., Esq.
Hearing Officer

Thomas F. Ahern
Administrator