

Administration and Finance; and Mr. Anthony B. Simeone, the RICWFA's Executive Director.

Ms. Giebink testified that the NBC plans to use the \$57,000,000 loan from the RICWFA to fund capital projects. She related that the Division has previously approved seven such loans to the NBC from the RICWFA, totaling \$72,345,031.¹

Ms. Giebink explained that the loan proceeds will primarily provide “*partial funding for the construction of the Combined Sewer Overflow abatement project* [\$39,350,000] *and Contract 807: Improvements to the Bucklin Point Wastewater Treatment Facility*” [\$15,225,000].² She related that the proceeds would also fund the “*design phase of improvements to the Washington Highway and Omega Pump Stations* [\$900,000] *and Television Inspection and Cleaning of Interceptors* [\$600,000]”.³ Ms. Giebink related that the balance of the proceeds would be used to pay RICWFA fees (1.5%) and the NBC's bond issuance costs.⁴

Ms. Giebink testified that other than the approval being sought from the Division, the NBC has met all of the requirements needed to close on the RICWFA loan. She related that the NBC's Board of Commissioners passed resolutions on March 12, 2001 and September 24, 2001 authorizing the NBC to apply for a loan under the SRF program and to borrow an amount not to exceed \$57,000,000.⁵

¹ NBC Exh. 1, Giebink Testimony, pp. 2-3.

² Id.

³ Id.

⁴ Id.

⁵ Id., p.3 and “Exhibits” 2 and 4, respectively.

Ms. Giebink testified that the loan would be structured similar to prior loans from the RICWFA. She related that this particular loan would be a direct loan from the RICWFA at a negotiated subsidized rate of 3.3%. She further related that in accordance with the draft loan agreement, principal payments will begin on November 1, 2002 and interest will be charged only on the principal that has been '*advanced or deemed advanced*' to the NBC.⁶ Ms. Giebink proffered copies of the draft loan agreement and draft debt service schedules.⁷

In her final comments, Ms. Giebink related that the NBC's current rates generate sufficient revenue to fund the debt service associated with the instant loan. She noted that the Public Utilities Commission ("Commission") recently approved an annual debt service allowance of \$11,594,467 for the NBC on January 24, 2001. Ms. Giebink thereupon proffered a "*debt service coverage schedule*", which she stated reflects that the additional debt service can be covered through the annual allowance.⁸

Mr. Simeone provided supplemental information regarding the loan and also offered a description of the structure of the RICWFA's "*zero interest loan program*" that has been developed as a result of the bond referendum approved by the voters of Rhode Island in November 2000.⁹

By way of some history, Mr. Simeone explained that voters approved

⁶ *Id.*, pp. 3-4.

⁷ *Id.*, "Exhibits" 4 and 5, respectively.

⁸ *Id.*, p. 4 and "Exhibit 6".

⁹ *Id.*, Simeone Testimony, p.1.

\$70,000,000 in zero interest loans for the NBC to fund the combined sewer overflow abatement project in a 2000 referendum. In response to the referendum approval, the State issued \$60,000,000 in general obligation bonds in July 2001. Mr. Simeone explained that the \$60,000,000 general obligation bonds were issued with the expectation that the proceeds would be invested by the RICWFA with the goal of generating the \$70,000,000 needed by the NBC.

He related that of these bond proceeds, \$3,000,000 was designated for drinking water programs and \$57,000,000 was designated for wastewater treatment projects. Mr. Simeone then explained that “*due to federal tax considerations*”, the State determined that the \$57,000,000 in state general obligation proceeds could not be invested long term as the means for providing the interest subsidy. As a result, Mr. Simeone related that the RICWFA, in consultation with its financial advisor, legal counsel and the State Budget Office, developed a program whereby the \$57,000,000 would be loaned directly to a borrower at a subsidized rate.¹⁰

Mr. Simeone testified that under this program, the principal and interest payments on the loan would essentially serve as the investment vehicle for subsidizing the zero interest loans instead of a conventional investment tool. He related that the NBC would be the recipient of this direct loan at a subsidized rate of 3.3%.¹¹

Mr. Simeone related that in addition to the interest from the direct loans,

¹⁰ *Id.*, p.2.

¹¹ *Id.*, pp.2-3.

“deallocated” reserve funds, originally invested to subsidize prior loans; and the excess capacity of existing loans as they are paid off, will also be used to subsidize future loans.¹²

Mr. Simeone next explained that in order to maximize the amount of subsidized loans, the RICWFA developed a “blended rate” program.¹³ He related that the blended rate is achieved by structuring loans that are half at zero percent and half at the subsidized rate under market conditions. He related that under current market conditions this will result in a blended rate of 1.7 percent. Mr. Simeone testified that structuring the program this way will allow the RICWFA to maximize the amount of subsidized funding that will be available to borrowers. He noted that under this program, the RICWFA will be able to make \$276,000,000 in blended rate loans over the next three years.¹⁴

Mr. Simeone related that the RICWFA’s blended rate program will allow the RICWFA to make \$140,000,000 in blended rate loans available to the NBC. He related that the benefits are obvious in view of the original bond referendum’s limit of \$70,000,000 in zero interest loans for the NBC to fund the combined sewer overflow abatement project.¹⁵

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

¹² Id., Simeone Testimony, p.3.

¹³ Id.

¹⁴ Id.

¹⁵ Id., pp. 3-4.

presented, that the NBC 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

As an initial observation, the Division must note that fully understanding the details and nuisances of the instant borrowing was no small task. The particulars associated with the interrelationship between the State's \$60,000,000 general obligation bonds and the RICWFA's "zero interest loan" and "blended rate" programs required a good amount of exploration during the hearing conducted in this docket. The supplemental explanations offered at the hearing by Mr. Simeone and Ms. Giebink on the differences between the State's Water Pollution Control Revolving Fund, which is exclusively State funded, and the State's Federal Clean Water Act Revolving Fund, which is 80 percent funded by the federal government; on the different meanings of the term "pool", as used by the NBC's two witnesses in their respective testimony; and on the methodology used to calculate the "subsidized rate" all greatly facilitated the Division in its quest to determine the propriety of the proposed debt issuance.

Predicated on a careful examination of the record in this matter, the Division finds that the NBC's application seeking approval to enter into long-term debt and issue revenue bonds in an amount not to exceed \$57,000,000, is reasonable and in the best interest of ratepayers.

Now, therefore, it is

(16750) ORDERED:

1. That the Narragansett Bay Commission's September 27, 2001 application, which seeks Division approval under R.I.G.L. §39-3-15, to enter into long-term debt and issue revenue bonds as part of a \$57,000,000 State Water Pollution Control Revolving Fund 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 NBC'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 OCTOBER 25, 2001.

John Spirito, Jr., Esq.
Hearing Officer

Thomas F. Ahern
Administrator