

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

IN RE: Block Island Utility District :
 Application for Authority to Incur Debt : Docket No. D-22-11

REPORT AND ORDER

On July 8, 2022, the Block Island Utility District d/b/a Block Island Power (“BIUD”), 100 Ocean Avenue, Block Island, Rhode Island, filed an application with the Rhode Island Division of Public Utilities and Carriers (“Division”) seeking approval to enter into long-term debt in the amount \$1,400,000 for the purchase of a single-family townhouse to be used as employee housing and rented by BIUD’s current and future Presidents. 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.¹

In response to the application filing, the Division conducted a duly noticed public hearing on August 9, 2022. The hearing was conducted in the Division’s hearing room, located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances:

For the BIUD:

Leah J. Donaldson, Esq.

For the Division’s
Advocacy Section:

Gregory Schultz, Esq.
Special Assistant Attorney General

¹ BIUD Exhibit 1.

The BIUD proffered pre-filed direct testimony from three witnesses in support of its application. The witnesses were identified as Mr. Jeffrey M. Wright, BIUD's President; Ms. Barbara A. MacMullan, Chair of BIUD's Board of Commissioners; and David G. Bebyn, President of B&E Consulting, LLC ("B&E").

Mr. Wright testified that the BIUD is requesting Division approval to enter into long-term debt necessary to fund the purchase of a single-family townhouse that will be rented by the company's current and future Presidents.²

Mr. Wright described the source of funding for the proposed borrowing. He stated that the BIUD plans to use the National Rural Utilities Finance Cooperation ("CFC") as its lender. He went on to state that the BIUD is currently a 100% borrower of CFC which allows them to maximize certain discounts.³ Mr. Wright testified that the BIUD compares rates between three cooperative/rural utility lenders and that the CFC remains the most competitive. Mr. Wright testified that the benefits of remaining a 100% CFC borrower outweigh any potential savings the utility could realize from the selection of an alternative lender.⁴

Mr. Wright next described the services that CFC offers to its members. He testified that CFC is a \$29 billion member-owned cooperative association incorporated under the laws of the District of Columbia. He related that CFC's principal purpose is to provide its members with financing to supplement the loan programs of the Rural Utilities Service (RUS) of the United States

² BIUD Exhibit 1; Wright Testimony, p. 3.

³ *Id.*, p. 3.

⁴ *Id.*, p. 4.

Department of Agriculture. Mr. Wright related that CFC provides loans to its rural electric members “so they can acquire, construct and operate electric distribution, generation and transmission systems and related facilities.” He also explained that CFC provides its members with credit enhancement in the form of letters of credit and guarantees of debt obligations.⁵ Mr. Wright related that CFC offers various free services to its borrowers such as cost of service studies, rate design assistance, board and senior management trainings, and on-site strategic planning.⁶ Mr. Wright noted that CFC’s secured long-term debt is rated “A-” by Standard and Poor’s, “A1” by Moody’s, and “A+” by Fitch.⁷

In describing the terms of the loan, Mr. Wright related that CFC has approved a \$1,400,000 loan for a term of 30 years which will be secured by a first lien on substantially all of the revenue and assets of the BIUD.⁸ He stated that the interest rate on the loan will be 6.00% and have an effective rate of 5.50% after member discounts and cash patronage are applied.⁹ He testified further that BIUD does not have a rate lock option in place and the actual rates will be determined by market conditions and the rate will be set by CFC at the time the BIUD executes the loan documents.¹⁰

Mr. Wright next explained how Total Discount Cash Patronage applies to the projected annual cash flow summary. He testified that Total Discounts are

⁵ Id.

⁶ Id.

⁷ Id.

⁸ Id.; p. 5.

⁹ On the day of the hearing, BIUD provided schedules which include updated amortization scenarios for an expected interest rate of 5.75% and a “worst-case scenario” interest rate of 6.25%. BIUD Exhibit 3.

¹⁰ Id.

based on BIUD being a 100% borrower and BIUD's ability to meet its loan covenants.¹¹ He related that additional discount will be applied when BIUD reaches a debt/equity level in excess of 40%. As of 12/31/2021, BIUD's equity level was approximately 22% and is expected to reach 40% in the next 4 years.¹² Mr. Wright explained that Cash Patronage is CFC's distribution of a portion of their excess earnings and is based on historical cash patronage distribution to its member utilities and CFC's financial performance. He stated that it is a projection and not guaranteed.¹³

Mr. Wright added that CFC only monitors one loan covenant titled Modified Debt Service Coverage (MDCS). He defined MDSC as Operating Margins + Interest Expense LTD + Depreciation/Amortization + Non-Operating Margins * Long Term Debt Service. Mr. Wright noted that the level of MDSC that CFC requires is 1.35 in the highest two out of the past three years and that BIUD has always met this covenant.¹⁴

Mr. Wright next provided relevant details concerning the subject of the proposed borrowing, namely the single-family townhouse located at 1801 High Street on Block Island (Townhouse). Mr. Wright testified that the townhouse is one of eight units in the approximately 9-year-old Seawind's development.¹⁵ He stated that the sales price agreed to was \$1.395 million which was the full asking price. BIUD made several offers starting at \$1.1 million to no avail as the seller

¹¹ Id.; p. 5.

¹² Id.

¹³ Id.

¹⁴ Id.; p. 6.

¹⁵ Id.

would not accept an offer below asking price.¹⁶ He related further that the total living area of the townhouse is 1,922 square feet and contains three bedrooms, two and a half bathrooms, a 120 square foot deck and one garage space. He opined that the townhouse is simple, does not have ocean views, is in a residential area close to the school, and is a modest year-round Block Island home.¹⁷

Mr. Wright's testimony next focused on the appraisal, inspection and approval of the purchase of the Townhouse. Mr. Wright related that BIUD had the property appraised on May 15, 2022 by Richard Moschella of Ideal Realty Services. Mr. Moschella placed the appraised value the property at \$1.395 million. Mr. Wright testified that BIUD hired Property Inspections, Inc to perform a complete home inspection which yielded no significant structural issues and was found to be in good condition.¹⁸ He also testified that, on June 8, 2022 the BIUD Board of Utility Commissioners voted to borrow up to \$1.4 million from CFC for the purchase of the Townhome.¹⁹

In discussing BIUD's capital improvement goals and projects, Mr. Wright testified that BIUD is six years into an aggressive capital improvement plan that includes pole replacements, generation plant upgrades, and most recently a voltage conversion. He related that BIUD's reliability is "better than ever", that he feels improvements are sustainable even with a reduction in funding and that

¹⁶ Id.

¹⁷ Id.

¹⁸ Id.; p. 7 and attachments JMW-1 and JMW-2.

¹⁹ Id.

BIUD has additional funding available to them through CFC to fund larger capital projects if necessary.²⁰ He related further that, since February of 2016, the BIUD has changed nearly 600 of 2,000 poles and performed a full cycle of vegetation maintenance.²¹ The BIUD has changed their equipment standards and have replaced all critical large commercial pad mount transformers and about half of the overhead transformers with new stainless-steel units that have improved reliability and will last thirty plus years in the harsh salt environment. Mr. Wright testified that BIUD completed a voltage conversion of approximately 60% of its load that will “deliver savings from reduced system losses while improving power quality. He noted that all work was completed without a rate increase.”²²

In closing, Mr. Wright stressed the importance of employee housing in attracting skilled and qualified workers from the mainland. He stated that he will be working with the Board of Directors on recruiting his replacement as he is looking to retire within the next 4-6 years and that the Townhouse is critical to anyone looking to relocate to Block Island.²³

Ms. MacMullan began her direct testimony by describing the purpose for which the loan will be used. She testified that BIUD is seeking approval of a \$1.4 million loan which will be used by the utility district to purchase a townhouse for employee housing, specifically to rent to the BIUD’s President.²⁴ She noted

²⁰ Id.

²¹ Id.; pp. 7-8.

²² Id.; p. 8.

²³ Id.

²⁴ BIUD Exhibit 1, MacMullan Testimony, p. 2.

that she supports the strategy of borrowing 100% of the BIUD's needs from one bank as BIUD receives preferential rates as a 100% borrower.²⁵

Ms. MacMullan discussed the need for BIUD to provide a rental home for its President. She testified that Block Island has a shortage of housing at affordable (or attainable) rates due to a variety of factors. Such factors include limited inventory and the high demand for rental houses during the summer.²⁶ She went on to explain that the average sales price over the past year is \$1.55 million and that it is far more lucrative for homeowners to rent their houses during the summer than to make them available for year-round rental.²⁷

Ms. MacMullan next testified that the President currently lives in a small apartment above BIUD's office and is charged \$18,000 per year for rent which includes utilities and other expenses. She related that once the President moves into the newly purchased Townhouse the apartment will be available to house other employees. Ms. MacMullan stated that the President will continue to pay \$18,000 per year in rent and BIUD and the President will split the \$400 per month Home Owner Association ("HOA") fee. The difference will be funded by BIUD's capital fund.²⁸ Ms. MacMullan explained that the BIUD Board considered other options, including constructing a house on land the Utility District already owns, before voting unanimously to proceed with the purchase. The Board concluded that purchasing the home was the most cost-effective option.²⁹

²⁵ Id.

²⁶ Id.; p. 3.

²⁷ Id.

²⁸ Id.; pp. 3-4.

²⁹ Id.; p. 4.

In closing, Ms. MacMullan stated that it is the BIUD Board of Commissioners' long-term goal to provide an adequate level of employee housing for retention of existing employees and the recruitment of future employees. She related that Block Island's housing market is strong and that as their existing workforce moves toward retirement, they will be replaced by younger workers who will need housing.³⁰

Mr. Bebyn began his testimony by explaining the terms of the proposed mortgage loan. He testified that the loan will be secured by all of BIUD's real and personal property.³¹ Mr. Bebyn testified that the interest rate used in the amortization tables provided as DBG-1 use an interest rate of 6.00% and is the rate as of July 5, 2022. He stated that effective rate after member discounts and patronage capital is approximately 5.50%. He went on to state that the loans interest rate at closing will be calculated using a revenue market rate not to exceed 7.00% or 100bsp over the market rate.³² He related that there is no draw down period and the mortgage funds will be used to purchase new employee housing. He explained that the repayment period for the loan will be 30 years with no balloon payment due at the end of the 30 years. He noted that the debt service on the loan will be designed to include level annual payments of less than \$101,300 for the \$1,400,000 loan.

³⁰ Id.

³¹ BIUD Exhibit 1, Bebyn Testimony, p. 2 and attachment DGB-1.

³² Id.; On the day of the hearing, BIUD provided schedules which include updated amortization scenarios for an expected interest rate of 5.75% and a "worst-case scenario" interest rate of 6.25%. BIUD Exhibit 3.

Mr. Bebyn opined that the BIUD has sufficient rates in place to pay the debt service for the instant loan. Mr. Bebyn added that the BIUD will be utilizing a portion of its capital reserve funding currently in rates and some rental income not currently in rates to support the borrowing. He went on to testify that in BIUD's last general rate filing, the BIUD informed the Public Utilities Commission that part of its capital and voltage conversion reserves would be used for two loans in Division Docket D-22-1 and that it was anticipating a future loan to cover employee housing.³³

Mr. Bebyn next explained the estimated annual debt service obligation to BIUD. He testified that the annual debt service is expected to be \$101,209 using a 6% interest rate. He stated that the President is expected to pay rent in the amount of \$18,000 per year, plus utilities and half of the HOA fees. Once the President moves into the Townhouse the existing apartment above office space is anticipated to be rented to one of the linesmen at \$14,000 per year. He stated that this rent reflects the salary of a linesman.³⁴

Mr. Bebyn explained that the additional rental income of \$14,000 less \$2,400 in HOA fees BIUD would cover, results in an additional \$12,000 in net rental income. The balance of the annual debt service offset by net rent is \$89,207. He stated that the BIUD had an annual pay-go capital fund of \$400,000 and after the loans approved in Docket D-22-1 and the current filing, there would be \$294,185 in capital reserve funding available for capital projects.³⁵

³³ Id.; p. 3.

³⁴ Id.

³⁵ Id.

Mr. Bebyn related that the loan is subject to a prepayment administrative fee and any make-whole prepayment premium. He also testified that BIUD is required to maintain a Modified Debt Service Coverage ("MDSC"), which is defined as Operating Margins + Interest Expense LTD + Depreciation, Amortization + Non-Operating Margins. He explained that the MDSC that CFC requires is 1.35 for two out of the past three years. Mr. Bebyn was confident that BIUD would be able to satisfy the MDSC test.

In his final comments, Mr. Bebyn asserted that the terms of the proposed \$1,400,000 loan from the CFC is in the best interest of ratepayers.³⁶

The Division's Advocacy Section did not proffer any witnesses in this docket. It did, however, examine the filing and related attachments and conduct cross-examination of BIUD's three witnesses. After completing its examination and reviewing responses to the Division's post-hearing data requests, the Advocacy Section submitted its written recommendation and stated that it was satisfied from the evidence presented that BIUD had met the requirements set forth in Rule 1.14 of the Division Rules of Practice and Procedure (815-RICR-00-00-1.14) and recommends approval of BIUD's application.³⁷

FINDINGS

Predicated on a careful examination of the record in this matter, the Division finds that BIUD's application seeking authority to obtain a \$1,400,000 loan from the National Rural Utilities Cooperative Finance Corporation (CFC) for the purpose of purchasing a single-family townhouse that will be rented by the

³⁶ Id.; p. 5.

³⁷ Advocacy Sections Post Hearing Recommendation.

BIUD's current and future Presidents is reasonable and in the interest of BIUD and its ratepayers.

Now, therefore, it is

(24465) ORDERED:

1. That the Block Island Utility District's July 8, 2022 application, which seeks Division approval under R.I.G.L. §39-3-15, to obtain a \$1,400,000 loan from the National Rural Utilities Cooperative Finance Corporation (CFC) for the purpose of purpose of purchasing a single-family townhouse that will be rented by the BIUD's current and future Presidents, 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 AUGUST 26, 2022.


Mark Allen Simpkins, Esq.
Hearing Officer

APPROVED: 
Linda George, Esq.
Administrator



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NOTICE OF AVAILABILITY OF JUDICIAL REVIEW (PROVIDED PURSUANT TO R.I.G.L. § 42-35-12)

Please be advised that if you are aggrieved by this final decision (report and order) of the Rhode Island Division of Public Utilities and Carriers (“Division”) you may seek judicial review of the Division’s final decision by filing an appeal with the Rhode Island Superior Court. You have thirty (30) days from the mailing date (or hand delivery date) of the Division’s final decision to file your appeal. The procedures for filing the appeal are set forth in Rhode Island General Laws, Section 42-35-15.

Proceedings for review may be instituted by filing a complaint in the Superior Court of Providence or Kent Counties. Copies of the complaint must be served upon the Division and all other parties of record in your case. You must serve copies of the complaint within ten (10) days after your complaint is filed with the Superior Court.

Please be advised that the filing of a complaint (appeal) with the Superior Court does not itself stay enforcement of the Division’s final decision. You may however, seek a stay from the Division and/or from the Court.

The judicial review shall be conducted by the Superior Court without a jury and shall be confined to the record. The Court, upon request, shall hear oral argument and receive written briefs.