

**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 to Issue Bonds in an : Docket No. D-15-222
Amount not to exceed \$4,718,000 :

REPORT AND ORDER

On November 10, 2015, 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 \$4,718,000 as part of a Rhode Island Drinking Water State Revolving Fund (“DWSRF”) loan from the Rhode Island Infrastructure Bank (“RIIB”). 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 application indicates that PWSB seeks to borrow approximately \$4,718,000 from the RIIB to finance distribution system improvements to the PWSB System.¹

¹ The Division notes that the instant filing was preceded by nine similar filings made on December 4, 2003, February 6, 2004, January 7, 2005, December 19, 2006, September 3, 2009, August 11, 2011, April 10, 2012, February 28, 2013 and May 22, 2015. 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 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 filing on February 27, 2004, through Report and Order No.17764. In the January 7, 2005 filing, the PWSB sought Division authority to borrow approximately \$35 million from the RICWFA to finance 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. The Division approved this previous filing on February

In response to the application filing, the Division conducted a duly noticed public hearing on November 24, 2015. 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:	Sean P. Keough, Esq.
For the Division's Advocacy Section:	Karen Lyons, Esq. Special Assistant Attorney General

PWSB proffered three witnesses in support of its application. The witnesses were identified as Mr. James L. DeCelles, the PWSB's Chief Engineer; Ms. Maureen E. Gurghigian, Managing Director, First Southwest Company, 652 George Washington Highway, Lincoln, Rhode Island; and Mr. Christopher P.N. Woodcock, President of Woodcock & Associates, Inc., 18 Increase Ward

2, 2005, through Report and Order No.18134. In the December 19, 2006 filing, the PWSB sought Division authority to borrow approximately \$1.9 million from the RICWFA to finance improvements to the PWSB System, including, but not limited to, the purchase of approximately 23,000 meter interface units. Subsequently, however, the PWSB decided to withdraw this application, which was approved by the Division on January 17, 2007, through Report and Order No.18831. In the September 3, 2009 filing, the PWSB sought Division authority to borrow approximately \$5.9 million from the RICWFA to finance distribution and other miscellaneous improvements to the PWSB System. The Division approved this previous filing on September 23, 2009, through Report and Order No.19770. In the August 11, 2011 filing, the PWSB sought Division authority to borrow approximately \$7,485,000 from the RICWFA to finance distribution and other miscellaneous improvements to the PWSB System. The Division approved this previous filing on September 13, 2011, through Report and Order No. 20470. In the April 10, 2012 filing, the PWSB sought Division authority to borrow approximately \$1,955,000 from the RICWFA to finance its ongoing water main replacement project, and specifically to replace approximately 31,000 feet of existing water pipes, which have been in service for over one hundred years. The Division approved this previous filing on May 3, 2012, through Report and Order No. 20720. In the February 28, 2013 filing, the PWSB sought Division authority to borrow approximately \$8,645,000 from the RICWFA to again finance its ongoing water main replacement project, and specifically to replace approximately 60,000 feet of existing water pipes. The Division approved this previous filing on March 26, 2013, through Report and Order No. 20993. Lastly, in the May 22, 2015 filing, the PWSB sought Division authority to borrow approximately \$5,907,000 from the RICWFA to again finance its ongoing water main replacement project, and specifically to replace approximately 33,000 feet of existing water pipes. The Division approved this previous filing on June 12, 2015, through Report and Order No. 21938.

Drive, Northborough, Massachusetts, a consulting firm specializing in water and wastewater rate and financial studies.

Chief Engineer James DeCelles was proffered as a supporting witness to discuss why PWSB has requested approval to borrow approximately \$4,718,000 from the RIIB. Mr. DeCelles testified that PWSB will use the proceeds from this borrowing for its ongoing water main replacement program, and specifically to clean and line approximately 46,847 linear feet of existing water pipes. Mr. DeCelles related that this project, described as “Cleaning and Lining Project 6 (“CL-6”)” represents the PWSB’s final phase in a cleaning and lining effort that started approximately 15 years ago. He explained that the project consists of cleaning and lining aging 6” and 8” piping, which has become “very tuberculated” over the years and has resulted in decreasing carry capacity as well as water quality problems. Mr. DeCelles testified that the cleaning and lining “will significantly increase the flow capacity, eliminate water quality issues and increase the fire-fighting capabilities.”²

Mr. DeCelles also testified that PWSB identified these projects in its capital program, and that they are listed on the Rhode Island Department of Health’s Project Priority List, which Mr. DeCelles related qualifies the projects for a subsidized Drinking Water State Revolving Fund loan through the RIIB.³

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

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

³ PWSB Exhibit 1, DeCelles Testimony, p. 2.

supervisory responsibility for First Southwest's involvement with borrowings by the State of Rhode Island, numerous public agencies and 20 Rhode Island municipalities, including the city of Pawtucket. She testified that the firm currently serves more than 2000 municipalities and agencies, including more than 400 in New England.⁴

Ms. Gurghigian related that she has served as financial advisor to PWSB in previous bond approval cases before the Division. She related that she is currently providing assistance to PWSB with respect to the planned loan from the RIIB. Ms. Gurghigian confirmed that the proposed \$4,718,000 borrowing from the RIIB is needed to finance distribution main improvements. Ms. Gurghigian explained that of the \$4,718,000 loan amount, approximately \$4,298,246 will be available for project funds, and approximately \$322,574 will fund the Debt Service Reserve Fund as required by PWSB's Indenture of Trust. She stated that an additional \$97,180 is allocated for costs of issuance on the local level, including rating agency fees, bond counsel, financial advisor and trustee fees, and the RIIB origination fee.⁵

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

⁴ PWSB Exhibit 1, Gurghigian Testimony, p. 1.

⁵ Id., pp. 2-3.

projects listed on the Project Priority List maintained by the Rhode Island department of Health. Ms. Gurghigian emphasized that the DWSRF has provided a significant portion of the funding for PWSB's capital program. She also explained that after the RIIB receives the capitalization grants from the federal government and the State's matching funds, the RIIB sells bonds in the public market and loans the proceeds to its drinking water borrowers pursuant to loan agreements.⁶ Ms. Gurghigian related that PWSB identified these projects in its capital program and they are listed on the Rhode Island Department of Health's Project Priority List. She testified that these projects, therefore, qualify for a subsidized DWSRF loan through the RIIB.⁷

Ms. Gurghigian next testified that the term of the requested borrowing is 20 years. She explained that once the construction funds are fully drawn down, the PWSB 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 related that based upon current market conditions, it is anticipated that the loan will not exceed a market rate of 4.25%, which she stated would result in a projected subsidized rate of approximately 3.00%. Therefore, for the purpose of Division approval, Ms. Gurghigian recommended a not to exceed market rate of 4.25%.⁹

Ms. Gurghigian testified that this borrowing will be done when the RIIB sells its revenue bonds for the DWSRF, which is anticipated to take place in

⁶ Id., p. 3.

⁷ Id.

⁸ Id.

⁹ Id., p. 4.

December of 2015. Ms. Gurghigian related that the expected pricing date is on or about December 2, 2015 and RIIB requires that all borrower approvals be in place prior to pricing loans. She added that a decision by the Division before this date would enable PWSB to meet the RIIB's deadlines.¹⁰

Ms. Gurghigian also proffered a debt service schedule with her pre-filed testimony. She testified that for the \$4,718,000 loan, annual debt service is expected to increase by approximately \$325,000 per year.¹¹

Mr. Christopher P.N. Woodcock was primarily proffered to confirm that PWSB currently has sufficient rates to pay the debt service associated with this borrowing. Mr. Woodcock based his opinion on a recent rate increase decision by the Public Utilities Commission in Docket No. 4450, the debt service schedule provided by Ms. Gurghigian, "and assuming the interest rates provided in her testimony, the combination of the PWSB's debt service funding, debt service stabilization and IFR funding sufficiently cover the PWSB's existing debt obligations, the proposed borrowing, as well as the coverage requirements."¹²

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

¹⁰ Id., p. 4.

¹¹ Id., p. 4 and transcript; also Schedule MG-1.

¹² PWSB Exhibit 1, Woodcock Testimony, p. 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 PWSB's ratepayers.

Now, therefore, it is


(22239) ORDERED:

1. That the November 10, 2015 application, filed by 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 \$4,718,000 as part of a Rhode Island Drinking Water State Revolving Fund ("DWSRF") loan from the Rhode Island Infrastructure Bank, is hereby approved as filed.
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 NOVEMBER 30, 2015.



John Spirito, Jr., Esq.
Hearing Officer

APPROVED: 

Thomas F. Ahern
Administrator



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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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.