

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

IN RE: City of Woonsocket Water Division :
 Application for Authority to Issue : Docket No. D-05-05
 Long-Term Debt :

REPORT AND ORDER

On January 18, 2005, the City of Woonsocket Water Division (“WWD”) filed two applications with the Rhode Island Division of Public Utilities and Carriers (“Division”) seeking authority to enter into long-term debt and issue revenue bonds. One application seeks Division authority to issue not more than \$4,200,000 of new bonds to refinance outstanding bonds that were previously issued in 1994. The other application seeks Division authority to borrow an amount not to exceed \$5,000,000 from the Drinking Water State Revolving Fund (“SRF”) through the Rhode Island Clean Water Finance Agency (“RICWFA”). The applications were 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.

In response to the two application filings, which were both consolidated into the instant docket, 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 WWD: Craig L. Eaton, Esq.

For the Division's
Advocacy Section: Leo J. Wold, Esq.
Special Assistant Attorney General

The WWD proffered one witness in support of its applications. 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 WWD did offer its Superintendent and General Manager, Mr. Emerson J. Marvel, to answer some questions about several of the WWD's projects.

Ms. Gurghigian, whose company provides advisory services to issuers of municipal debt, testified that she is providing assistance to the WWD with respect to its request for authorization to issue up to \$4,200,000 of bonds to refinance outstanding bonds and the request for authorization for a "not to exceed" \$5,000,000 new loan from the RICWFA. She noted that the RICWFA loan is expected to be funded later this month.¹

\$4,200,000 Refinancing Application

In explaining the refinancing, Ms. Gurghigian testified that the City of Woonsocket ("City") issued \$6,400,000 of bonds in 1994 and that \$4,025,000 of those bonds remained outstanding as of September 1, 2004. She related that the 1994 Bonds have been eligible to be called as of March 1, 2004. She

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

testified that the City would need to sell a new bond issue in the amount of \$4,135,000 to effect the refinancing. Ms. Gurghigian related that the proceeds of the refinancing, net of issuance expenses, would be placed in escrow and invested in a US Treasury Security to pay the cost of calling the 1994 Bonds.

Ms. Gurghigian explained that the refinancing issue must be sized to pay the principal and accrued interest on the prior bond issue, and provide sufficient funds for a call premium (paid to the previous bond holders) and issuance costs (i.e., insurance, rating fees, underwriting fees and advisory fees).² Ms. Gurghigian related that because the amount of accrued interest to be paid to investors and the amount of investment earnings on the escrow investment will not be known until the refinancing is completed, the size is subject to change until the date the refinancing bonds are priced. She noted that this is the reason for the “not to exceed” language in the WWD application.³ Ms. Gurghigian also related that the actual interest rate for the issue would not be established until pricing takes place. She noted that the tax-exempt rates are expected to range from 2.05 to 5.0%, and that savings projections are based upon an average rate of 3.75%.⁴

On the issue of ratepayer impact, Ms. Gurghigian testified that the debt service on the new bonds would be lower on an annual basis than the debt service on the 1994 Bonds by approximately \$15,000 per year from FY 2005 through FY 2014 when the bonds mature. She related that the total savings

² Id., p. 2.

³ Id., pp. 2-3.

⁴ Id., p. 5.

are currently projected at \$148,000 in cash flow and \$129,000 in net present value benefit. She noted that the net present value savings represent approximately 3.2% of the prior bonds.⁵

\$5,000,000 New Loan Application

Ms. Gurghigian testified that the WWD expects to borrow not more than \$5,000,000 from the RICWFA in early 2005 to continue with the Logee Street infrastructure project.⁶ She related that the loan will be for 20 years and is similar to the \$10,165,250 loan that the Division approved for the WWD in 2003. She related that the interest rate would be a rate not exceeding the market rates, which she noted is currently about 4.40%.⁷ Ms. Gurghigian testified that the annual debt service payments are expected to range from \$350,000 to \$375,000 per year based upon current market conditions and the 25% interest subsidy provided by the RICWFA, which she noted provides a subsidized interest rate of approximately 3.30%. According to Ms. Gurghigian, the total debt service payments would be \$8,011,000 over the life of the issue as compared with projected total debt service of \$7,458,000 for the subsidized loan.⁸

⁵ Id., p. 3.

⁶ During the hearing Ms. Gurghigian testified that despite the request contained in its application filing, the WWD would likely only be borrowing approximately \$4,000,000 through the RICWFA. However, as a contingency arrangement, Mr. Marvel responded that the WWD would prefer to maintain its original request for authority to borrow up to \$5,000,000. Accordingly, albeit Ms. Gurghigian offered calculations using both amounts, this report and order addresses only the merits of the terms and figures used in the WWD's initial application filing and in Ms. Gurghigian's pre-filed direct testimony.

⁷ Ms. Gurghigian stated that she did not expect the interest rate to exceed 5.00% (Id., p. 3).

⁸ Id., p. 3.

Ms. Gurghigian testified that current revenues could support the projected debt service for the first fiscal year. She explained that once the project proceeds are fully drawn the debt service would increase. She related that in the short term a portion of the WWD's IFR funds would be pledged to debt service on the new loan. She explained that the IFR funds must be pledged as a condition of the RICWFA loan. She stated that the WWD would subsequently need to seek additional debt service from the Public Utilities Commission in order to be able to maintain its current level of IFR projects.⁹

Ms. Gurghigian next proffered a breakdown of the expected sources and uses of the \$5,000,000 RICWFA loan. She presented the following table:

Project Proceeds	\$4,422,700
Debt Service Reserve Fund	397,300
RICWFA Origination Fee	50,000
Municipal Bond Insurance	65,000
Costs of Issuance	<u>65,000</u>
Total	\$5,000,000 ¹⁰

In comparing the differences between the refinancing and the new RICWFA loan, Ms. Gurghigian testified that the loan is secured by a pledge of water revenues pursuant to the Trust Indenture adopted by the City in connection with the \$10,165,250 loan completed in 2003. She also noted that the RICWFA loan is funded through the SRF. In contrast, she related that the refinancing is a general obligation of the City, secured by the City's taxing

⁹ Id., p. 4.

¹⁰ Id.

pledge but payable from the revenue of WWD. She explained that the refinancing couldn't be completed through the RICWFA because the 1994 Bonds were issued by the City prior to the existence of the SRF and because the timing of the projects financed at that time did not fit within the eligibility window permitted by the US EPA.¹¹

The Division's Advocacy Section did not present any witnesses in this docket. After a thorough cross-examination of the WWD's witnesses, the Advocacy Section stated for the record that it was satisfied from the evidence presented, that the WWD had met the requisite burden of proof set forth in R.I.G.L. §39-3-15, et seq. and that the proposed bond issuance and borrowing were in the public interest.

FINDINGS

Predicated on a careful examination of the record in this matter, the Division finds that the WWD's applications seeking Division authority to: (1) issue not more than \$4,200,000 of new bonds to refinance outstanding bonds that were previously issued in 1994 and (2) borrow an amount not to exceed \$5,000,000 from the SRF through the RICWFA to be reasonable and in the best interest of ratepayers.

Now, therefore, it is

(18133) ORDERED:

1. That the City of Woonsocket Water Division's January 18, 2005 application seeking Division approval under R.I.G.L. §39-3-15 to issue not more than

¹¹ Id., p. 5.

\$4,200,000 of new bonds to refinance outstanding bonds that were previously issued in 1994 is hereby approved as filed.

2. That the City of Woonsocket Water Division's January 18, 2005 application seeking Division approval under R.I.G.L. §39-3-15 to borrow an amount not to exceed \$5,000,000 from the SRF through the RICWFA, is hereby approved as filed.
3. That the Division hereby makes these approvals contingent upon the WWD'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.
4. That the Division hereby limits approval of the instant applications 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

