

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN RE: PETITION FOR APPROVAL)	GWA DOCKET 17-10
TO REFUND THE GUAM)	
WATERWORKS AUTHORITY’S)	
2010 BOND SERIES AND)	ALJ REPORT
SUPPORTING DOCUMENTS)	
_____)	

INTRODUCTION

This matter comes before the Guam Public Utilities Commission (the “PUC”) pursuant to the Petition for Approval to Refund the Guam Waterworks Authority’s 2010 Bond Series and Supporting Documents (the “Petition”), filed by the Guam Waterworks Authority (“GWA”) on August 2, 2017.

DISCUSSION

A. Bond Review Authority

Pursuant to 12 G.C.A. §12105, GWA cannot enter into any contractual agreements or obligations which could increase rates and charges without the PUC’s express approval. Additionally, pursuant to GWA’s Contract Review Protocol, all externally funded loan obligations and other financial obligations, such as lines of credit, bonds, etc., in excess of \$1,000,000, and any use of such funds, must be approved by the PUC.¹

B. August 2, 2017 Petition to Refund the 2010 Bond Series

GWA’s Petition seeks PUC approval for the refunding of its 2010 Bond Series. GWA maintains that it is authorized under Public Law 32-069 to refund the 2010 Bond Series provided that the refunding produces at least a 2% present value (“PV”)

¹ See Contract Review Protocol for Guam Waterworks Authority, Administrative Docket 00-04, p. 1 (Oct. 27, 2013).

savings.² GWA submits that according to its underwriters, refunding the 2010 Bonds in September would result in a 6.9% PV savings.³ Accordingly, GWA further submits that “the expected PV savings of 6.9% exceed the 2% PV statutory threshold by nearly 5%.”⁴ GWA also indicated that it will later submit a petition concerning how it intends on allocating the savings from the refund.⁵

C. CCU Resolution No. 51-FY2017

Pursuant to Resolution No. 51-FY2017, the Consolidated Commission on Utilities (the “CCU”) authorized the issuance of the subject refunding, designated as the “Revenue Refunding Bonds,” “in an aggregate principal amount not to exceed an aggregate principal amount sufficient to provide funds for such redemption or retirement of all or a portion of such Prior Bonds, plus related costs of issuance and of such redemption or retirement and to fund a deposit to the debt service reserve fund, if any.”⁶

Furthermore, these bonds “shall be issued in such series and amounts and at such times as the Chair of the Commission, the Vice Chair of the Commission or the General Manager of the GWA (the ‘Designated Officers’) deem appropriate, provided that such bonds have a final maturity not later than the final maturity of the Prior Bonds, bear interest at such rate or rates and are sold for such price or prices not exceeding any

² Petition, p. 2.

³ Petition, p. 2.

⁴ Petition, p. 2.

⁵ Petition, p. 2.

⁶ Petition, CCU Resolution No. 51-FY2017, pp. 3-4.

limitation established by the Legislation, and are issued and sold pursuant to the Indenture and otherwise in compliance with the provisions of the Act.”⁷

Pursuant to the Resolution, the CCU also approved the Bond Documents, which include the Supplemental Indenture, the Supplemental Continuing Disclosure Agreement and the Bond Purchase Agreement, and authorized GWA to execute such documents, subject to the approval of the Legislature, GEDA, and the PUC.⁸

D. Public Law 32-069

In P.L. 32-069, the Guam Legislature (the “Legislature”) expressly approved GWA’s issuance and sale of “fixed rate revenue bonds in one or more series or issues to refinance the outstanding revenue bonds of the Authority . . . provided, that the issuance, terms and conditions of the refinancing bonds shall have been approved by the Guam Public Utilities Commission and the Guam Consolidated Commission on Utilities, and that the sale of the bonds shall be approved by the Board of Directors of GEDA; and further provided, that such refinancing bonds shall have a principal amount sufficient to provide funds for the payment of all bonds to be refinanced thereby (the ‘prior bonds’), and in addition for the payment of all expenses incident to the calling, retiring or paying of such prior bonds and the issuance of such refinancing bonds, including”:

- (a) the difference in amount between the par value of the refinancing bonds and any amount less than par for which the refinancing bonds are sold;
- (b) any amount necessary to be made available for the payment of interest upon such refinancing bonds from the date of sale thereof to the date of payment of the prior bonds or to the date upon which the prior bonds will be paid

⁷ Petition, CCU Resolution No. 51-FY2017, p. 4.

⁸ Petition, CCU Resolution No. 51-FY2017, pp. 5-6.

pursuant to the call thereof or agreement with the holders thereof;

(c) the premium, if any, necessary to be paid in order to call or retire the prior bonds and the interest accruing thereon to the date of the call or retirement; and

(d) any additional amount needed to provide for a deposit to the debt service reserve in connection with the issuance of the refinancing bonds.⁹

The statute further provides that any such refinancing bonds:

[S]hall have a final maturity not later than the final maturity of the prior bonds; that such refinancing bonds shall be issued and sold pursuant to the Authority's existing bond indenture and in compliance with the provisions of Chapter I 4 of Title 12 of the Guam Code Annotated; and that the present value of debt service on the refinancing bonds shall be at least two percent (2%) less than the present value of debt service on the bonds being refinanced, using the yield on the refinancing bonds as the discount rate; and further provided that all obligation of the Authority to pay debt service on, and the redemption price of, the prior bonds shall be discharged concurrently with the issuance of the refinancing bonds; and thereafter, the prior bonds shall be payable solely from and secured solely by an escrow established for such purpose in accordance with the Authority's existing bond indenture.¹⁰

Accordingly, GWA is authorized to issue and sell revenue bonds to refinance the outstanding revenue bonds so long as such bonds have a final maturity not later than the final maturity of the prior bonds; that the present value of debt service on the refinancing bonds is at least two percent (2%) less than the present value of debt service on the bonds being refinanced; that the prior bonds shall be discharged concurrently with the

⁹ P.L. 32-069, pp. 4-5 (Nov. 7, 2013).

¹⁰ P.L. 32-069, pp. 5-6 (Nov. 7, 2013).

issuance of the refinancing bonds; and that the prior bonds shall be payable from and secured by an escrow established for such purpose.¹¹

F. September 9, 2017 Daymark Report

The PUC’s water and wastewater consultants, Daymark Energy Advisors (“Daymark”), performed an independent review of GWA’s petition and detailed its review in a report to the Commission on September 9, 2017 (the “Report”). The following are Daymark’s key findings.

1. Estimated Costs and Savings

GWA intends to refinance about \$109 million of its 2010 Series Bonds, for a refunded par of about \$107 million.¹² The estimated gross savings on debt service will be around \$10.6 million, which is also the estimated ratepayer benefit; the Net Present Value (“NPV” or “PV”) savings is about \$6.94 million.¹³ Daymark indicated that current estimates showed the market rallying with the NPV savings increasing to about \$7.5 million and 7.09%.¹⁴

It appears that the estimated costs associated with the issuance will be around \$1.6 million.¹⁵

¹¹ *Id.*

¹² Report, p. 7.

¹³ Report, p. 7.

¹⁴ Report, p. 8.

¹⁵ Report, p. 7.

2. **Allocation of Savings**

Daymark noted that GWA has not indicated where the savings from the refunding would be allocated.¹⁶ Accordingly, Daymark indicated concern with how the savings will be utilized to benefit ratepayers.¹⁷

3. **Review of Bond Documents**

Based on its examination of the proposed revisions in the terms and conditions for issuance of the Revenue Refunding Bonds, Daymark determined that the proposed revisions to the Bond Documents were within the allowed authority of GWA, and complied with the related legislation.¹⁸

4. **True Interest Cost**

Daymark noted that the all-inclusive true interest cost will not be known until the bond issues, which has the potential to be higher than estimates, and would thereby directly affect savings.¹⁹ The PV savings itself is subject to change due to interest rate risk.²⁰ However, Daymark indicated that given the recent rally of the market, “shown in the most recent estimate of PV Savings for the GWA refunding, the favorable demand conditions for Municipal bonds, and the potential for favorable after-effects resulting from a Federal Reserve decision in September, the current market conditions appear favorable for a bond refunding.”²¹

¹⁶ Report, p. 2.

¹⁷ Report, p. 14.

¹⁸ Report, p. 14.

¹⁹ Report, p. 13.

²⁰ Report, p. 13.

²¹ Report, p. 14.

5. Compliance with Regulations

Based on its analysis, Daymark determined that the proposed refunding would comply with existing regulations that permit GWA to issue refunding bonds.²² In particular, the intended date of maturity for the Revenue Refunding Bonds is the same date as the current 2010 Series Bonds. In addition, Daymark determined that the principal amount refinanced is sufficient to provide payment of the prior bonds, including the costs of issuance.²³ With respect to the statutory 2% PV requirement, the estimated PV savings for the refinancing is 7.1%, which is “significantly greater than” the statutory PV savings requirement.²⁴

6. Recommendations

Ultimately, Daymark recommended that the PUC approve GWA’s Petition for the refunding of its 2010 Bond Series.²⁵ However, Daymark recommended that the PUC direct GWA to “continue monitoring financial markets so that, upon execution [of the refund documents], ultimate savings achieved continue to comply with statutory requirements.”²⁶ Daymark additionally recommended that the PUC direct GWA to notify the Commission, within sixty (60) days of refinancing, its intent and plan regarding the savings achieved from the refinance.²⁷

²² Report, pp. 1, 13.

²³ Report, p. 6.

²⁴ Report, p. 6.

²⁵ Report, p. 14.

²⁶ Report, pp. 14-15.

²⁷ Report, p. 15.

CONCLUSION

A. Approval of Bond Issuance

Based on the record before this Commission, and on the independent review by the PUC's consultants, Daymark, the Administrative Law Judge (the "ALJ") assigned to this matter recommends that the PUC approve GWA's Petition for the refunding of GWA's 2010 Bond Series.

B. Approval of Bond Indenture

The PUC has previously approved the General Indenture back in 2005, and very minor and "cosmetic" revisions, as discussed herein, have been made to the document. Accordingly, the ALJ recommends that the Commission approve the issuance, as well as the form of the terms, and conditions contained in the Bond Documents of the Revenue Refunding Bonds.

RECOMMENDATION

Based on the foregoing, the ALJ recommends that the PUC approve the issuance, terms and conditions of the Revenue Refunding Bonds. A proposed Order and Order Approving Long-Term Debt are attached hereto for the Commissioners' consideration.

Respectfully submitted this 11th day of September, 2017.



JOEPHET R. ALCANTARA
Administrative Law Judge