



## RESOLUTION

**APPROVING THE PROPOSAL OF PENNICHUCK CORPORATION TO BORROW AND ISSUE UP TO FIFTY-FOUR MILLION FIVE HUNDRED THOUSAND DOLLARS (\$54,500,000) IN AN AGGREGATE PRINCIPAL AMOUNT OF TAX-EXEMPT AND TAXABLE BONDS AND/OR FINANCING**

### *CITY OF NASHUA*

*In the Year Two Thousand and Fourteen*

**WHEREAS**, the City of Nashua is the sole shareholder of Pennichuck Corporation (“Pennichuck”) and each of its subsidiaries;

**WHEREAS**, Article IX (3) of the Articles of Incorporation of Pennichuck and Article V §2 of the by-laws of Pennichuck require the approval of the sole shareholder (the City of Nashua) for Pennichuck to create, incur or assume any indebtedness for borrowed money or to issue or sell any debt securities or warrants, which includes borrowing and issuing bonds on behalf of Pennichuck or its subsidiaries; and

**WHEREAS**, Pennichuck is proposing to borrow and issue up to \$54,500,000 in an aggregate principal amount of tax-exempt and taxable bonds and/or financing for the purpose of: 1) reimbursement of funding for capital projects completed by Pennichuck in 2013; 2) funding capital projects to be completed in 2014, 2015, and 2016; 3) refinancing currently outstanding tax-exempt bonds; and 4) funding, if necessary and appropriate, a debt service reserve fund or other credit enhancement measure as may be determined by Pennichuck in response to prevailing market conditions.

**NOW, THEREFORE, BE IT RESOLVED** by the Board of Aldermen of the City of Nashua that the City approves Pennichuck Corporation’s proposal to borrow and issue up to \$54,500,000 in an aggregate principal amount of tax-exempt and taxable bonds and/or financing for the purposes described above.

**LEGISLATIVE YEAR 2014**

**RESOLUTION:** R-14-053

**PURPOSE:** Approving the proposal of Pennichuck Corporation to borrow and issue up to fifty-four million five hundred thousand dollars (\$54,500,000) in an aggregate principal amount of tax-exempt and taxable bonds and/or financing.

**ENDORSERS:** Mayor Donnalee Lozeau

**COMMITTEE  
ASSIGNMENT:**

**FISCAL NOTE:** None.

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**ANALYSIS**

This resolution approves the proposal by Pennichuck Corporation to borrow to borrow and issue up to \$54,500,000 in an aggregate principal amount of tax-exempt and taxable bonds and/or financing for financing the costs of necessary capital projects to maintain and replace Pennichuck's water utility infrastructure for the period of 2013 to 2016 and to refinance certain existing bonds with new bonds. These borrowings are also the subject of a current approval proceeding before the New Hampshire Public Utilities Commission.

Pennichuck has provided additional information which will be provided to the Board of Alderman by communication.

Article IX (3) of Pennichuck Corporation's Articles of Incorporation and Article V §2 of the Pennichuck Corporation's by-laws requires City approval for the borrowing.

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**Approved as to form:** Office of Corporation Counsel

**By:** *Dorothy Clarke*

**Date:** *July 3, 2014*

**VIA HAND DELIVERY**

July 3, 2014

Stephen Bennett, Esq.  
Corporation Counsel  
City of Nashua  
City Hall  
P.O. Box 2019  
Nashua, NH 03061-2019

Dear Attorney Bennett:

**Introduction.** As you know, the City of Nashua, New Hampshire (the "City") is the sole corporate shareholder of Pennichuck Corporation ("Pennichuck" or the "Company"). The City has been the sole shareholder since the acquisition of Pennichuck on January 25, 2012. The purpose for this letter is to request that the City, acting in its capacity as sole shareholder, approve resolutions authorizing the Company's regulated water utility subsidiary, Pennichuck Water Works, Inc. ("PWW"), to undertake certain borrowings for the purpose of: (1) financing the costs of necessary capital projects for the period 2013 to 2016 to maintain and replace PWW's water utility infrastructure; and (2) refinancing certain existing bonds with new bonds. As noted below, the borrowings for which we seek City approval are also the subject to a current proceeding before the New Hampshire Public Utilities Commission.

**Shareholder Approval of Borrowings Required.** Under Article IX of Pennichuck's Articles of Incorporation, the City, acting in its capacity as Pennichuck's sole shareholder, must approve:

- "(3) any action to (A) create, incur or assume any indebtedness for borrowed money or guarantee any such indebtedness of any person, (B) issue or sell any debt securities or warrants or other rights to acquire any debt securities of the [Pennichuck] Corporation or any of its Subsidiaries, or (C) guarantee any debt securities of any person."

**PWW Proposed Financings: Integrated Capital Finance Plan.** Pennichuck requests the City's approval to allow PWW to issue up to \$54,500,000 in aggregate principal amount of tax-exempt and taxable bonds and/or financing for the purposes of funding:

- (1) reimbursement of funding for capital projects completed by PWW in 2013 in the amount of approximately \$5.1 million;
- (2) funding of capital projects to be completed in 2014, 2015 and 2016 in the amount of approximately \$19.5 million;
- (3) refinancing approximately \$23.375 million of PWW's currently outstanding tax-exempt bonds; and
- (4) funding, if necessary and appropriate, a debt service reserve fund or other credit enhancement measure as may be determined by PWW in response to prevailing market conditions, in the approximate amount of \$5.4 million, and costs of issuance in the approximate amount of \$1.125 million.

PWW is seeking approval to consummate the proposed financing transactions as part of a long-term integrated capital financing plan that will deliberately transform PWW's capital structure from its current structure, which was put in place when PWW was operating as part of a publicly-traded, investor-owned public utility holding company system, to a new structure that is better aligned with PWW's current status as a public utility that is ultimately owned by the City of Nashua. We believe that the proposed financings are consistent with the public interest because they will:

- (1) finance necessary capital projects consistent with PWW's capital projects plan using long-term debt with favorable interest rates and maturities that are aligned with the useful lives of the funded capital assets;
- (2) refinance existing bonds with new bonds that have repayment terms and financial covenants that are aligned with the capital structure requirements of PWW as it is now ultimately owned by the City of Nashua, thereby mitigating future financing repayment and covenant risks; and
- (3) generally improve the capitalization of PWW consistent with the assumptions underlying the City's original acquisition of Pennichuck in January 2012 and the New Hampshire Public Utilities Commission's ("NHPUC's") order approving the City's acquisition, and it will not have any adverse impact on customer rates.

#### **New Hampshire Public Utilities Commission Approval Required**

The proposed borrowings may not occur without the prior approval of the NHPUC, and PWW has filed a petition to request this approval on May 16, 2014. The NHPUC has set a schedule for considering this request that contemplates completing its review in order to allow PWW to consummate the proposed borrowings by the end of this year. We have attached a copy of the PWW Petition, along with a copy of testimony supporting the request.

#### **Advisors, Underwriters and Lenders**

Pennichuck and PWW have developed the structure and terms of the proposed borrowing plan with the assistance of TD Bank, N.A. and TD Securities (USA) LLC, as advisors. TD Bank, N.A. may provide a credit facility contemplated by the proposal, and TD Securities (USA) LLC would serve as underwriter in connection with the issuance of tax-exempt bonds to be issued through the New Hampshire Business Finance Authority.

**Description of the Proposed Borrowings**

PWW's proposed Integrated Capital Finance Plan is projected to have the following terms:

- (1) The issuance of up to \$5.1 million of taxable debt will be accomplished either through the issuance of taxable bonds or the issuance of a credit facility by TD Bank. The taxable bonds would be unsecured, bear a fixed interest rate currently estimated to be approximately 7.25%, and would be fully amortizing over a 30 year term. The credit facility alternative would be unsecured, payable on a fully amortizing 20-year schedule, finally due and payable in 10 years with a final bullet payment of \$2.5 million. The projected interest rate costs of the credit facility would be approximately 5.0%. The proceeds of this component of the borrowings would be used to reimburse PWW for necessary water utility capital project costs incurred during 2013 that are not eligible for tax-exempt bond financing because these costs were incurred more than 60 days before the NHBFA adopted its resolution approving the issuance of tax-exempt bonds for the benefit of PWW, and, under applicable federal tax rules, only costs incurred after 60 days before the date of the NHBFA resolution are eligible for tax-exempt bond financing.
- (2) The issuance of up to \$19.5 million of tax-exempt bonds to finance necessary capital project costs to be incurred in 2014, 2015 and 2016 would be issued through the New Hampshire Business Finance Authority. These bonds would be unsecured, bear a fixed interest rate currently estimated to be approximately 5.875%, and would be fully amortizing over a 30-year term.
- (3) The issuance of up to \$23.375 million of tax-exempt bonds to refinance existing PWW bonds would also be issued through the NHBFA. These bonds would be unsecured, bear a fixed interest rate currently estimated to be approximately 5.5%, and would be fully amortizing over a term of approximately 21 years.
- (4) As noted, PWW may be required to issue additional tax-exempt bonds or to purchase a surety bond to finance a debt service reserve fund in the estimated amount of \$5.4 million.

**Approval by the Pennichuck Board of Directors.** The Pennichuck Board of Directors has approved the proposed borrowings in concept and will also approve the final terms and conditions of the proposed borrowings. Currently, we expect that the Pennichuck Board of Directors will provide final approval of the proposed borrowing documents before August 12.

**Requested Approvals.** For the reasons described above, Pennichuck respectfully requests that the City, acting in its capacity as sole shareholder of Pennichuck and pursuant to Article IX (3) of Pennichuck's Articles of Incorporation, authorize the following actions:

RESOLVED, that the City hereby approves the borrowing by Pennichuck Water Works, Inc. of each of the proposed taxable and tax-exempt borrowings described above and in the petition and related testimony filed by PWW with the New Hampshire Public Utilities Commission, in the aggregate principal amount of up to \$54.5 million, for the purposes described above and in the NHPUC petition and testimony.

Stephen Bennett, Esq.  
July 3, 2014  
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**FURTHER RESOLVED**, that Pennichuck Corporation and Pennichuck Water Works, Inc., their respective Board of Directors and Officers are severally authorized, empowered and directed to execute and deliver, in the name of and on behalf of Pennichuck Corporation and Pennichuck Water Works, Inc., loan and trust agreements and other related documents and agreements (the "Borrowing Agreements"), with such terms, including exhibits and schedules to such Borrowing Agreements, as may be deemed necessary or advisable in the several judgment of the Officers executing the Borrowing Agreements, and to take all other actions as they deem necessary or desirable to effect the proposed borrowings and the Borrowing Agreements and to carry out the purposes of these resolutions.

Respectfully submitted,

**PENNICHUCK CORPORATION**

By: \_\_\_\_\_  
Larry D. Goodhue  
Chief Financial Officer

cc: Mayor Donnalee Lozeau