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Witness Panel 2
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STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Re: City of Nashua Acquisition of Pennichuck Corporation

Docket DW 11-026

DIRECT TESTIMONY OF

JOHN GRIFFIN

February 18, 2011

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<u>Introduction and Purpose for Testimony</u>

Q. Please state your full name, title and office address.

A. My name is John Griffin. I am currently the Chief Financial Officer/Comptroller for the City of Nashua, New Hampshire (the "City"). My office address is City Hall, 229 Main Street, Nashua, New Hampshire 03060.

Q. How long have you served as CFO/Comptroller for the City?

A. Since August 2010.

Q. What are your duties as CFO/Comptroller for the City?

A. The City's Chief Financial Officer is responsible for the City-wide budget and financial compliance functions. This position reviews City-wide budget matters and makes recommendations to the Mayor, Budget Committee and the Board of Aldermen. This position oversees all financial operations including treasury, accounting, payroll, assessing, purchasing, risk management and financial forecasting. This position is also responsible for the development of long-range plans for the City's financial operations including revenue growth, taxation, borrowing and capital improvement programs.

Q. With whom do you work closely in discharging those duties?

A. In discharging those duties, I work closely with the City's financial advisors, bond counsel, external auditors, Mayor's office, Board of Aldermen, Legislators and community leaders.

Q. Please describe your background and relevant experience.

A. I have held several senior level financial management positions in public and private sector organizations including Director of Budget and Finance for the City of Lawrence, Lawrence MA and Vice President of Rates and Assistant Treasurer for Colonial Gas

Company, a Massachusetts-based natural gas distribution company regulated by the Massachusetts Department of Public Utilities ("MDPU"). I was also elected a member of the Town of Tyngsboro, MA Finance Committee where I have served as Chairman since 2005.

Q. Have you testified before the New Hampshire Public Utilities Commission on any previous occasions?

A. No.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address (1) the feasibility of financing the City's Merger Agreement with Pennichuck Corporation through the issuance of general obligation bonds; (2) the marketability of such bonds; and (3) the impact of this proposed financing upon the financial status of the City.

<u>The Feasibility of Financing the Merger Agreement Through the Issuance of General Obligation Bonds</u>

Q. With whom do you typically work in matters related to long-term financing for City expenditures?

A. The City has used First Southwest Company as the City's financial advisor in matters pertaining to the issuance of long-term debt, including bonds. First Southwest has been in business for over sixty years, with offices in eleven (11) states plus the District of Columbia. Among its other services, First Southwest serves as financial advisor or underwriter to a wide variety of public sector, non-profit and privately held entities including municipalities, states and state agencies. The City's primary contact at First

Southwest is Cynthia F. McNerney, Managing Director of the Boston, Massachusetts office.

Q. What are general obligation bonds?

A. General obligation bonds are a common type of bonds issued by municipalities in the United States that are secured by the local government's pledge to use legally available resources, including tax revenues, to repay bond holders. The City's primary tax revenue is the local property tax.

Q. Does the City have the legal authority to issue general obligation bonds to finance the merger transaction costs?

A. Yes. The New Hampshire State Legislature, the General Court, with the Governor, has enacted legislation that expressly authorizes the City to issue general obligation bonds to finance the merger transaction costs. This special enactment is Section 5 of Chapter 347 of the 2007 session laws of the State of New Hampshire, as amended by Section 118 of Chapter 1 of the 2010 special session laws of the State of New Hampshire, which I will refer to as the "Special Legislation." The entire Special Legislation is attached as Exhibit DL-2 to the testimony of Mayor Donnalee Lozeau. Paragraph III of the Special Legislation expressly declares that the acquisition by the City of the stock of Pennichuck Corporation is a purpose for which the City may issue bonds and notes pursuant to both RSA Chapter 33-B and RSA Chapter 33. In general, RSA Chapter 33 governs the issuance of general obligation bonds by New Hampshire municipalities.

Q. Will the amount of the general obligation bonds to be issued by the City to finance the merger transaction be counted against the limitation on the City's capacity to issue general obligation bonds?

A. No. Paragraph III of the Special Legislation expressly provides that any bonds or notes issued by the City pursuant to RSA Chapter 33 for the purpose of acquiring Pennichuck Corporation shall not be included for the purpose of calculating the borrowing capacity of the City.

Q. What services have been provided by First Southwest relative to financing this transaction?

A. First Southwest has provided ongoing interest rate scales and debt service schedules relating to the issue of tax-exempt and taxable general obligation and revenue bonds by the City to finance this transaction. This information has then been integrated into the various models created by the City's financial advisor, C.W. Downer & Co., and used to determine the impact the transaction will have on water rates, and for purposes of negotiating the terms of the Merger Agreement between the City and Pennichcuk Corporation.

Q. Have you determined whether it is feasible to finance the Merger Agreement through the issuance of general obligation bonds?

A. Yes. As set forth above, the City has used the issuance of general obligation bonds to finance various expenditures in the past. As explained in greater detail in the testimonies of John Patenaude and Arthur Gottlieb, sufficient funds to repay the general obligation bonds proposed to finance this transaction are reasonably expected to be generated by the operations of the Pennichuck Corporation and its subsidiaries, including both the regulated utilities and non-regulated entities. Accordingly, it is certainly feasible to finance this merger transaction through the issuance of general obligation bonds.

The Marketability of General Obligation Bonds

Q. What steps has the City taken to determine whether there is a market for the proposed general obligation bonds?

A. The City works closely with its financial advisor, First Southwest, with respect to the issuance of any long-term debt. That has been the case here. First Southwest monitors market conditions in the bond market on a regular basis and has advised the City on the marketability of the bonds proposed to be issued to finance this transaction.

Q. What factors influence the marketability of the proposed general obligation bonds?

A. As set forth above, there is a direct correlation between the rating to be assigned to a bond issuance, on the one hand, and the marketability of those bonds and the interest which will need to be paid on such bonds, on the other hand. Thus, the primary factor impacting the marketability of the proposed bonds is the rating to be assigned to the bonds.

Q. What have you determined regarding the marketability of the general obligation bonds that the City proposes to issue to finance this merger transaction?

A. Based on recent experience, current market conditions and the advice of our financial consultants, First Southwest, the City contemplates a solid market for its proposed general obligation bonds. First, Southwest has indicated throughout the process that, assuming the bond transaction is structured to be self-supporting and market conditions don't decline, the City should have market access for the bonds. First Southwest Company originates approximately $40-$45 billion of municipal bonds annually. As such, the firm is an expert in the origination and structuring of general obligation debt and municipal credit factors for issues of all sizes, including issues in the hundreds of millions. First Southwest has indicated that, based on current market conditions and assuming the capital markets are functioning as they are today, given the essential purpose to be accomplished by the acquisition, namely, control of the City's public water supply, and the economics of the transaction, the self-supporting nature of the bonds, and the AAA rating and credit strength of the City, it should have market access for general obligation debt and the City's excellent credit rating should not be negatively impacted by virtue of the proposed issue size. However, neither First Southwest nor any other financial consultant can guarantee market access or results in the future. Copies of the bond rating agencies reports related to the City are attached as Exhibits JG-1 through JG-3, respectively.

As set forth above, as recently as six months ago, the City sold a $6,000,000 bond issue at a historically low interest rate of 2.67%. Independent bond rating agencies have recently affirmed the strength of the City's credit. In addition to the Fitch "AAA" rating set forth above, Standard and Poor's recently affirmed the City's underlying bond rating of "AA+". That rating agency cited the City's diverse local economy, strong income levels, high market value per capita, strong financial position and low debt burden, as positive credit factors.

The following factors point to a strong market for the bonds which the City proposes to issue. First, general obligation bonds are more marketable than revenue bonds, whose repayment are tied solely to revenues generated by a specific revenue-generating entity associated with the purpose of the bonds. Second, the City's recent experience described above points to a strong market for general obligation bonds issued by the City. Third, the City's strong credit rating, discussed above, renders its bonds more marketable than those of governmental entities with lower credit ratings. Finally, First Southwest advises that the general market conditions are favorable for the sale of general obligation bonds.

The Impact of the Proposed Financing on the City's Financial Condition

Q. How would you describe the City's current financial condition?

A. As the Chief Financial Officer/Comptroller of the City, I am very familiar with all aspects of the City's financial condition. In my opinion, the City is on very sound financial footing.

But this is not just my opinion. As set forth above, independent bond rating agencies similarly express positive views on the City's financial status, citing such factors as the City's diverse local economy, strong income levels, low debt burden, strong reserve levels and above average wealth indicators.

Q. Do you anticipate any adverse impacts to the City's sound financial condition upon issuance and sale of the proposed bonds?

A. No. As explained in greater detail in the testimony of Mayor Lozeau, the Special Legislation passed by the New Hampshire Legislature provides that the acquisition by the City of the stock of Pennichuck Corporation is a purpose for which the City may issue bonds pursuant to RSA Chapter 33-B. The City's legal and financial advisors have advised that, pursuant to applicable law, debt related to this purchase cannot by applied against the City's debt limit since revenue from operations of the Pennichuck Corporation subsidiaries will be used to repay this debt. Thus, the sale of general obligation bonds to finance this merger transaction will not diminish the City's flexibility in issuing other debt to finance other municipal projects and obligations. Nor will it impact the City's excellent bond rating.

In addition, as described in the testimony of Arthur Gottlieb, operations of the Pennichuck Corporation subsidiaries will generate sufficient revenues to repay this debt obligation in full.

Finally, both the aforementioned rating agencies were aware the City was developing plans for the possible purchase of Pennichuck at the time of the July 2010 issue, and understood that self-supporting general obligation debt would likely be used for this purpose. Both rating agencies recognized the essential purpose of the possible acquisition and expressed no concern about the issue or its impact on the City's credit rating.

Q. Do you have any further testimony at this time?

A. No.