

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WEST CARROLL WATER)
DISTRICT FOR AN ORDER AUTHORIZING THE) CASE NO. 2012-00386
DISTRICT SECURITIES PURSUANT TO KRS)
278.300)

ORDER

West Carroll Water District (“West Carroll District”) has applied for authorization to enter into an interlocal agreement with the City of Carrollton, Kentucky (“Carrollton”) for the purpose of obtaining a loan from the Kentucky Infrastructure Authority (“KIA”) to replace existing infrastructure.

Having considered the evidence of record and being otherwise sufficiently advised,¹ the Commission finds that:

1. West Carroll District, a water district organized pursuant to KRS Chapter 74, owns a water distribution system that serves approximately 953 customers in Carroll, Henry, and Trimble Counties, Kentucky.²
2. Carrollton currently operates and maintains West Carroll District’s water distribution system.³

¹ On August 28, 2012, West Carroll District tendered its Application to the Commission. On September 20, 2012, it supplemented its application to meet the requirements of KRS 278.300(2). In its application, West Carroll District requested a deviation from 807 KAR 5:001, Section 11(2). On November 15, 2012, the Commission granted this request and accepted the Application for filing.

² *Annual Report of West Carroll Water District No. 3 to the Kentucky Public Service Commission for the Year Ending December 31, 2011* at 5 and 27.

³ See <http://www.carrolltonutilities.com> (last visited Nov. 12, 2012).

3. Carrollton has applied to KIA for a loan to finance several water infrastructure improvements. Under the terms of the proposed loan, Carrollton will borrow \$1,850,270 and will repay \$1,202,676 of this principal amount over a 30-year period at one percent interest per annum. The remaining principal amount, approximately 35 percent of the total loan amount, will be forgiven.⁴

4. In addition to financing water infrastructure improvements for Carrollton's water system, the proceeds from the KIA loan will also finance several water infrastructure improvements for West Carroll District's water distribution system. These improvements include the construction of two new booster pumping stations and 47,140 linear feet of water main. The proposed water infrastructure improvements are intended to improve system pressure, replace aging and leaking water distribution mains, and extend service to unserved portions of West Carroll District's territory.⁵

5. The West Carroll District improvements will provide service to 18 additional customers.⁶

⁴ Carrollton's project is identified in the Water Resource Information System as Project Number WX21041304. For a description of the proposed project, see <http://wris.ky.gov/portal/DwPrjData.aspx?PNUM=WX21041304> (last visited Nov. 12, 2012). On December 8, 2011, KIA considered and approved Carrollton's application for funding. See Kentucky Infrastructure Authority, Revised Board Meeting Booklet for December 8, 2011 at 65-78, <http://kia.ky.gov/NR/rdonlyres/2929DABA-2277-4327-A5B3-51C2CD2E5CF6/0/REVISEDkiaboardbook120811.pdf> (last visited Nov. 13, 2012); Kentucky Infrastructure Authority, Board Meeting Booklet for January 5, 2012 at 9-15 <http://kia.ky.gov/NR/rdonlyres/D5C437FA-AF25-4132-A387-D2CA77E002A6/0/kiaboardbook010512.pdf> (last visited Nov. 13, 2012).

⁵ App. Ex. B. For a detailed description of the proposed water infrastructure improvements, see <http://www.carrolltonutilities.com/news.html#carrollcty> (last visited Nov. 13, 2012). See also <http://wris.ky.gov/portal/DwPrjData.aspx?PNUM=WX21041304> (last visited Nov. 12, 2012).

⁶ App. Ex. B.

6. Total cost of West Carroll District's proposed water infrastructure improvements, including contingencies, engineering fees, inspection fees, and other administrative fees, is \$868,097.25.⁷

7. West Carroll District intends to finance its proposed water infrastructure improvements with \$868,097 of the proceeds from Carrollton's loan with KIA. Based upon KIA's stated intent to forgive 35 percent of Carrollton's proposed loan, West Carroll will assume responsibility of \$564,263 of the remaining principal of \$1,202,676. It further proposes to reduce its responsibility by using \$92,250 of internal funds towards the total cost of the proposed improvements.⁸

8. On March 26, 2012, Carrollton and West Carroll District executed an Interlocal Agreement⁹ that provides:

a. They will jointly apply to KIA for funding of their proposed water infrastructure improvements as a regional water project.

b. These improvements will be divided into separate construction contracts with Carrollton and West Carroll District determining the nature and the scope of each improvement as it affected their respective water system.

c. Carrollton and West Carrollton will jointly select one engineering firm to handle all of the proposed improvements.

d. Carrollton will apply to KIA for a loan of \$1,850,270 to be paid over a 30-year period at an interest rate of one percent per annum and subject to at least 30 percent principal forgiveness.

⁷ *Id.*; App. ¶ 5.

⁸ App. ¶ 5.

⁹ App. Ex. A.

e. Loan proceeds from KIA will be used by both entities to fund their proposed infrastructure improvements, with the funding being allocated between multiple construction contracts in accordance with actual expenses incurred for construction on each contract pro rata, with a similar percentage assigned to each entity for the cost of engineering services, which cost is also to be divided on a pro rata basis.

f. West Carroll District's pro rata share of the cost of the proposed improvements is estimated at \$868,097.25.

g. West Carroll District will pay to Carrollton a semi-annual payment for a period equal to the years of the debt incurred by Carrollton to cover West Carroll District's proportionate share of the final debt service for its portion of the project with these payments beginning the same year that Carrollton is required to begin making payments to KIA.

h. The Interlocal Agreement will become effective upon Commission approval of the Interlocal Agreement, the issuance of a Certificate of Public Convenience and Necessity for West Carroll District's proposed improvements, and a proposed rate adjustment to permit West Carroll District to meet its obligations under the Interlocal Agreement.

9. The proposed Interlocal Agreement constitutes an evidence of indebtedness.

10. KRS 278.300(1) requires a utility to obtain Commission authorization prior to the issuance of any evidence of indebtedness.

11. West Carroll District's entry into the proposed Interlocal Agreement is for a lawful object within its corporate purpose, is reasonably necessary and appropriate for

and consistent with the proper performance of its service to the public, will not impair West Carroll District's ability to perform that service, and is reasonably necessary and appropriate for such purpose.

12. No determination is made in this Order regarding the need for or reasonableness of West Carroll District's proposed water infrastructure improvements, nor is use of any proceeds from Carrollton's proposed KIA loan for those improvements authorized until and unless West Carroll District is granted a Certificate of Public Convenience and Necessity to construct such improvements.

IT IS THEREFORE ORDERED that:

1. West Carroll District is authorized to enter into the proposed Interlocal Agreement with Carrollton.

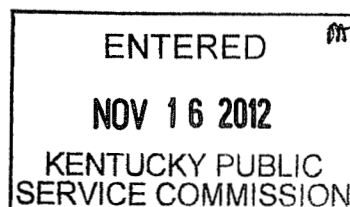
2. The proceeds from Carrollton's loan from KIA for which West Carroll has agreed to assume payment responsibility as a result of the proposed Interlocal Agreement shall be used only for the lawful purposes set out in the Application. None of the proceeds, however, shall be used for the construction of the water improvements identified in West Carroll District's Application unless and until West Carroll District is granted a Certificate of Public Convenience and Necessity to construct such improvements.

3. West Carroll District shall file with the Commission written evidence of the Attorney General's approval of the proposed Interlocal Agreement within 10 days of receiving such evidence.

4. Any documents filed pursuant to ordering paragraph 3 of this Order shall reference the number of this case and shall be retained in the utility's general correspondence file.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

By the Commission



ATTEST



Executive Director

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