

Rubin & Hays

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CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

February 1, 2013

RECEIVED

FEB 4 2013

PUBLIC SERVICE
COMMISSION

Mr. Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

Re: Muhlenberg County Water District - Kentucky Public Service Commission
Application for a CPCN for a Water System Improvements Project and approval of
financing

Dear Mr. Derouen:


Enclosed please find the original and ten (10) copies of the Application of the Muhlenberg County Water District for a Certificate of Public Convenience and Necessity to construct and finance a water system improvements project pursuant to KRS Chapter 278.

Also enclosed are eleven (11) copies of the exhibits required. Please note that no Plans and Specifications were prepared as this project involves the acquisition and installation of radio read meters only.

If you need any additional information or documentation, please let us know.

Sincerely,

Rubin & Hays

By 
W. Randall Jones

WRJ:jl
Enclosures

cc: Mr. Davey Douglas, Muhlenberg County Water District
Ms. Kristen Millard, Morgan Keegan

RECEIVED

FEB 4 2013

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the matter of:

APPLICATION OF THE MUHLENBERG COUNTY)
WATER DISTRICT FOR A CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY)
TO CONSTRUCT AND FINANCE A WATER) Case No. 2013 - _____
IMPROVEMENTS PROJECT PURSUANT TO)
KRS 278.020 AND 278.300)

APPLICATION

The Muhlenberg County Water District (the "District"), by counsel, pursuant to KRS 278.020, petitions the Commission for a certificate of public convenience and necessity to construct a waterworks improvement project and finance said project. The following information is filed in accordance with the Commission's regulations:

1. The District's office address is P.O. Box 348, Greenville, Kentucky 42345. Its principal officers are listed in its 2011 Annual Report, which is on file with the Commission;
2. The District is a non-profit water district organized under KRS Chapter 74 and has no separate articles of incorporation or by-laws;
3. A description of the District's water system and its property stated at original cost by accounts is contained in its 2011 Annual Report, which is incorporated by reference pursuant to 807 KAR 5:001 Section (11)(5). All required normal financial schedules and other data are in the Annual Report;
4. The Commission issued an Order in Case No. 2012-00009, dated April 30, 2012 authorizing the District to assess a monthly surcharge of \$1.91 on each customer beginning on May 1, 2012 and continuing for a period of 120 months or until the total amount of the surcharge assessed

equals \$1,357,255, whichever occurs first. The proceeds of the surcharge are required to be used only for the purchase and installation of meters to replace the District's existing meters.

5. The water project which is the subject matter of this Application consists of the acquisition and installation of approximately 5,800 radio read meters (the "Project");

6. The Project is in the public interest and will improve the District's system and provide accuracy and timeliness in meter readings (see the Memorandum of Explanation attached hereto as **Exhibit "A"**);

7. The total project cost is approximately \$1,247,000, as forth in the Sources and Uses of Funds attached hereto as **Exhibit "B"**;

8. No easements are necessary for the Project;

9. This service will not compete with any other utility in the area;

10. Based on these facts, the District believes that it is in the public interest that this certificate be granted and that the plan of financing be authorized;

11. The following information is provided in response to 807 KAR 5:001 Section (14)(2);

a. Articles of Incorporation - None, the District is a statutorily created water district under KRS Chapter 74;

12. The following information is supplied to 807 KAR 5:001 Section (15)(2);

a. Facts relied upon to show that the Project is in the public interest: The Project will provide more accurate meter readings and expedite the time necessary by the District employees to read the meters (see the Memorandum of Explanation attached hereto as **Exhibit "A"**);

b. No new franchises are required. No permits are required;

c. There are no diagrams of the proposed Project as it involves the acquisition and installation of radio read meters only;

d. Three (3) maps of suitable scale are not applicable in this case as the new radio read meters are replacing existing meters;

e. The construction costs will be funded from the proceeds of a loan in the approximate amount of \$1,250,000 (subject to adjustment of up to 10%) from the Kentucky Rural Water Finance Corporation through it's Flexible Term Program (see preliminary schedules of Morgan Keegan attached as **Exhibit "C"**);

f. The cost of operation of the system after Project completion will remain the same as the exchange of meters will have no affect on the cost of operation of the System;

13. The following information is provided as required by 807 KAR 5:001 Section (17);

a. A general description of the property is contained in the 2011 Annual Report;

b. Financial information relating to the KRWFC Loan is contained in the Schedules referred to in paragraph 12(e) above;

c. All funds are to be used in accordance with the Sources and Uses of Funds, see **Exhibit "B"**;

d. No real property is being acquired in connection with this Project;

e. No proceeds of the KRWFC Loan will be used to refund outstanding obligations.

f. The KRWFC Loan will be secured by and paid out of the revenues of the District's system.

14. The following exhibits are provided pursuant to 807 KAR 5:001 section (17);

a. The District hereby requests and moves for a deviation from the requirements of 807 KAR 5:001, Section 17(2)(a), which requires that the financial data filed with the Application be for a twelve (12) month period ending within ninety (90) days of the filing of the application. The District states that there has been no change that is material in nature in the financial condition or operation of the District since December 31, 2011. The financial data filed herewith as **Exhibit "D"** is for the twelve (12) month period ending December 31, 2011. This is the most recent published financial data available. Because the Project has been bid, the District cannot run the risk of delaying the commencement of the Project and losing the favorable bids while more current financial data is compiled;

b. There are no trust deeds or mortgages applicable;

c. Maps and detailed plans are not applicable in this case. Detailed estimate of property acquired by USOA number is account #334 (meter and meter installations) - \$1,247,000;

15. The District requests that it be granted a deviation under 807 KAR 5:001(21), if necessary to accommodate any situation where inflexible compliance with a regulation would be impracticable, onerous or which would hinder District's daily operations;

16. The District desires to use the proceeds of the surcharge to pay the debt service payments on the KRWFC Loan and asks the Commission to enter a Declaratory Order to such effect.

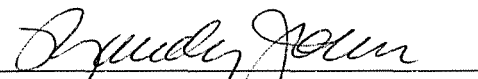
WHEREFORE, the Applicant, Muhlenberg County Water District requests that the Public Service Commission of Kentucky grant to the Applicant the following:

- A. A certificate of public convenience and necessity permitting the Applicant to acquire and install a water system improvement project;
- B. An order approving the issuance of securities in the form of a loan from the Kentucky Rural Water Finance Corporation in the approximate amount of \$1,250,000 (subject to adjustment of up to 10%).
- C. A Declaratory Order authorizing the District to use the proceeds of the surcharge to pay the debt service payments on the KRWFC Loan.
- D. Applicant's motion for a deviation from the 90 day requirement for financial information as required by 807 KAR 5:001 Section (17).

Muhlenberg County Water District

By 
Chairman

Rubin & Hays

By 
W. Randall Jones
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202
(502) 569-7525

Muhlenberg County Water District #1
P.O. Box 348/301 Dean Road
Greenville, KY 42345
Phone: (270) 338-1300 Fax: (270) 338-7494

January 28, 2013

The following outline recognizes research done by MCWD #1 on minimizing cost of purchasing Radio Read Meters as well as plans to further cut costs in order to reduce amount requested for funding this request.

1. Quotes were received from C.I. Thornberg 4 years ago for SR2 meters @ \$1,499,000.00 and 1 year ago for IPearl meters @ \$1,357,000.00 to be paid over a 10 year period. Quotes were then received for IPearl meters in which would be paid up front @ \$1,247,000.00. This quote is for 5800 meters which would give us approximately 100 extra meters for replacement, new customers, etc. This would save \$110,000.00 not including finance costs.
2. MCWD #1 has decided to install meters with our own manpower in order to save installation fees. We have estimated completion of installing meters to be 5 months.
3. As of June 2012, with approval from PSC, MCWD has included \$1.91 meter surcharge to each customer's monthly billing for funding purchase of Radio Read Meters.
4. MCWD will benefit from Radio Read Meters with more accurate readings which will be done in 2 working days versus the now 12 days it takes, thus opening a second service crew needed to help maintain our system with quick response to leak detection in order to keep our water loss percentage and a lower rate. MCWD customers will also benefit from this as we will be able to identify customer's leaks in a more timely manner.
5. MCWD also projects Radio Read Meters lowering maintenance on 3 vehicles as well as fuel costs to Fleet. Our research shows each meter reader uses a minimum of 6 gallons of fuel per day. Radio Read Meters will

6. Require only 1 vehicle to be used, saving the company 18 gallons per day/216 gallons per month.

7. MCWD plans on beginning to test new meters after 5 years of installation and testing 1,000 per year so to be in compliance with PSC.

Preliminary

\$1,250,000

Muhlenberg County Water District
Potential Loan through the
Kentucky Rural Water Finance Corporation

Sources & Uses

Dated 02/27/2013 | Delivered 02/27/2013

Sources Of Funds

Par Amount of Bonds	\$1,250,000.00
Reoffering Premium	44,596.40
Total Sources	\$1,294,596.40

Uses Of Funds

Total Underwriter's Discount (1.750%)	21,875.00
Costs of Issuance	21,250.00
Deposit to Project Construction Fund	1,247,000.00
Rounding Amount	4,471.40
Total Uses	\$1,294,596.40

Preliminary

\$1,250,000

Muhlenberg County Water District
Potential Loan through the
Kentucky Rural Water Finance Corporation

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
02/27/2013	-	-	-	-	-
08/01/2013	-	-	15,175.42	15,175.42	-
12/31/2013	-	-	-	-	15,175.42
02/01/2014	115,000.00	2.400%	17,737.50	132,737.50	-
08/01/2014	-	-	16,357.50	16,357.50	-
12/31/2014	-	-	-	-	149,095.00
02/01/2015	115,000.00	2.400%	16,357.50	131,357.50	-
08/01/2015	-	-	14,977.50	14,977.50	-
12/31/2015	-	-	-	-	146,335.00
02/01/2016	115,000.00	2.450%	14,977.50	129,977.50	-
08/01/2016	-	-	13,568.75	13,568.75	-
12/31/2016	-	-	-	-	143,546.25
02/01/2017	120,000.00	2.500%	13,568.75	133,568.75	-
08/01/2017	-	-	12,068.75	12,068.75	-
12/31/2017	-	-	-	-	145,637.50
02/01/2018	120,000.00	2.450%	12,068.75	132,068.75	-
08/01/2018	-	-	10,598.75	10,598.75	-
12/31/2018	-	-	-	-	142,667.50
02/01/2019	125,000.00	2.650%	10,598.75	135,598.75	-
08/01/2019	-	-	8,942.50	8,942.50	-
12/31/2019	-	-	-	-	144,541.25
02/01/2020	130,000.00	3.350%	8,942.50	138,942.50	-
08/01/2020	-	-	6,765.00	6,765.00	-
12/31/2020	-	-	-	-	145,707.50
02/01/2021	135,000.00	3.300%	6,765.00	141,765.00	-
08/01/2021	-	-	4,537.50	4,537.50	-
12/31/2021	-	-	-	-	146,302.50
02/01/2022	135,000.00	3.300%	4,537.50	139,537.50	-
08/01/2022	-	-	2,310.00	2,310.00	-
12/31/2022	-	-	-	-	141,847.50
02/01/2023	140,000.00	3.300%	2,310.00	142,310.00	-
12/31/2023	-	-	-	-	142,310.00
Total	\$1,250,000.00	-	\$213,165.42	\$1,463,165.42	-

Yield Statistics

Bond Year Dollars	\$7,034.72
Average Life	5.628 Years
Average Coupon	3.0301896%
Net Interest Cost (NIC)	2.7072003%
True Interest Cost (TIC)	2.6635308%
Bond Yield for Arbitrage Purposes	2.3300207%
All Inclusive Cost (AIC)	3.0560143%

IRS Form 8038

Net Interest Cost	2.3010546%
Weighted Average Maturity	5.659 Years

Raymond James | Morgan Keegan

Preliminary

\$1,250,000

Muhlenberg County Water District
Potential Loan through the
Kentucky Rural Water Finance Corporation

Net Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Trustee	Net New D/S
12/31/2013	-	-	15,175.42	15,175.42	-	15,175.42
12/31/2014	115,000.00	-	34,095.00	149,095.00	450.00	149,545.00
12/31/2015	115,000.00	-	31,335.00	146,335.00	450.00	146,785.00
12/31/2016	115,000.00	-	28,546.25	143,546.25	450.00	143,996.25
12/31/2017	120,000.00	-	25,637.50	145,637.50	450.00	146,087.50
12/31/2018	120,000.00	-	22,667.50	142,667.50	450.00	143,117.50
12/31/2019	125,000.00	-	19,541.25	144,541.25	450.00	144,991.25
12/31/2020	130,000.00	-	15,707.50	145,707.50	450.00	146,157.50
12/31/2021	135,000.00	-	11,302.50	146,302.50	450.00	146,752.50
12/31/2022	135,000.00	-	6,847.50	141,847.50	450.00	142,297.50
12/31/2023	140,000.00	-	2,310.00	142,310.00	450.00	142,760.00
Total	\$1,250,000.00	-	\$213,165.42	\$1,463,165.42	\$4,500.00	\$1,467,665.42

Raymond James I Morgan Keegan

Preliminary

\$1,250,000

Muhlenberg County Water District
Potential Loan through the
Kentucky Rural Water Finance Corporation

Pricing Summary

Maturity	Type of Bond	Coupon	Yield	Maturity Value	Price	Dollar Price
02/01/2014	Serial Coupon	2.400%	1.260%	115,000.00	101.047%	116,204.05
02/01/2015	Serial Coupon	2.400%	1.410%	115,000.00	101.875%	117,156.25
02/01/2016	Serial Coupon	2.450%	1.550%	115,000.00	102.565%	117,949.75
02/01/2017	Serial Coupon	2.500%	1.710%	120,000.00	102.988%	123,585.60
02/01/2018	Serial Coupon	2.450%	1.870%	120,000.00	102.717%	123,260.40
02/01/2019	Serial Coupon	2.650%	2.060%	125,000.00	103.275%	129,093.75
02/01/2020	Serial Coupon	3.350%	2.260%	130,000.00	106.952%	139,037.60
02/01/2021	Serial Coupon	3.300%	2.490%	135,000.00	105.793%	142,820.55
02/01/2022	Serial Coupon	3.300%	2.730%	135,000.00	104.487%	141,057.45
02/01/2023	Serial Coupon	3.300%	2.930%	140,000.00	103.165%	144,431.00
Total	-	-	-	\$1,250,000.00	-	\$1,294,596.40

Bid Information

Par Amount of Bonds	\$1,250,000.00
Reoffering Premium or (Discount)	44,596.40
Gross Production	\$1,294,596.40
Total Underwriter's Discount (1.750%)	\$(21,875.00)
Bid (101.818%)	1,272,721.40
Total Purchase Price	\$1,272,721.40
Bond Year Dollars	\$7,034.72
Average Life	5.628 Years
Average Coupon	3.0301896%
Net Interest Cost (NIC)	2.7072003%
True Interest Cost (TIC)	2.6635308%

Raymond James I Morgan Keegan

Public Finance

Muhlenberg County Water District
Statement of Net Assets
December 31, 2011 and 2010

<u>Assets</u>	<u>ASSETS</u>	
	<u>2011</u>	<u>2010</u>
Cash equivalents	\$ 166,225	\$ 99,004
Customer accounts receivable (less allowance for uncollectible accounts of \$10,513 and \$12,085)	209,552	220,877
Unbilled revenue	138,861	156,295
Other receivables	29,585	39,368
Prepayments	26,341	23,507
Inventory	48,197	51,957
Restricted assets:		
Cash equivalents	262,480	277,244
Investments, at fair value	512,739	507,788
Capital assets, net of depreciation	7,733,121	8,088,828
Deferred charges	<u>92,331</u>	<u>101,532</u>
Total Assets	<u>9,219,432</u>	<u>9,566,400</u>
	 <u>LIABILITIES</u> 	
<u>Liabilities</u>		
Trade accounts payable	76,760	84,629
Accrued liabilities	56,518	44,409
Accrued interest on debt	67,776	69,308
Customers' deposits	168,080	164,860
Short-term debt	64,235	70,000
Long-term debt due in one year	304,502	287,000
Noncurrent liabilities:		
Long-term debt due after one year	<u>3,056,318</u>	<u>3,338,158</u>
Total Liabilities	<u>3,794,189</u>	<u>4,058,364</u>
	 <u>NET ASSETS</u> 	
<u>Net Assets</u>		
Invested in capital assets, net of related debt	4,464,632	4,565,202
Restricted for:		
Debt Service and Customer Deposits	539,363	551,823
Unrestricted	<u>421,248</u>	<u>391,011</u>
Total Net Assets	<u>\$ 5,425,243</u>	<u>\$ 5,508,036</u>

See notes to financial statements.

Muhlenberg County Water District
Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>Operating Revenue</u>		
Water revenues	\$ 2,906,680	\$ 2,931,857
Other	96,451	101,829
Total Operating Revenues	<u>3,003,131</u>	<u>3,033,686</u>
<u>Operating Expenses</u>		
Administrative and general expenses	984,767	1,003,225
Source of supply purchases	792,189	854,129
Transmission and distribution expenses	478,040	540,523
Depreciation	403,855	402,542
Customer accounts expenses	102,893	146,183
Pumping expenses	101,777	91,312
Payroll and other taxes	53,216	62,874
Bad debts	18,750	11,549
Water treatment	16,544	16,081
Total Operating Expenses	<u>2,952,031</u>	<u>3,128,418</u>
<u>Operating Income (Loss)</u>	<u>51,100</u>	<u>(94,732)</u>
<u>Nonoperating Revenues (Expenses)</u>		
Investment income	12,301	12,324
Gain (loss) on capital asset disposals	(4,152)	12,479
Interest on debt	(154,506)	(164,953)
Amortization of deferred charges related to debt	(9,202)	(9,202)
Other interest expense	(1,661)	(116)
Total Nonoperating Revenue (Expenses)	<u>(157,220)</u>	<u>(149,468)</u>
<u>Net Income before Capital Contributions</u>	(106,120)	(244,200)
<u>Capital Contributions</u>	<u>23,327</u>	<u>255,891</u>
<u>Change in Net Assets</u>	(82,793)	11,691
<u>Net Assets-Beginning of Year</u>	<u>5,508,036</u>	<u>5,496,345</u>
<u>Net Assets-End of Year</u>	<u>\$ 5,425,243</u>	<u>\$ 5,508,036</u>

See notes to financial statements.

Muhlenberg County Water District
Statement of Cash Flows
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>Cash Flows from Operating Activities</u>		
Cash received from customers	\$ 3,041,673	\$ 3,037,960
Cash payments to suppliers for goods and services	(1,299,962)	(1,305,953)
Cash payments to employees for services	(1,239,827)	(1,429,054)
Net Cash Provided By Operating Activities	<u>501,884</u>	<u>302,953</u>
<u>Cash Flows From Capital and Related Financing Activities</u>		
Net increase (decrease) in line of credit obligation	(5,765)	70,000
Principal paid on capital debt	(288,470)	(275,125)
Contributed capital	13,110	24,665
Acquisition of property, plant, and equipment	(52,301)	(344,993)
Proceeds from equipment disposal	-	13,527
Grants received	10,217	231,226
Proceeds from capital debt	13,833	-
Interest paid on debt	(147,401)	(156,840)
Net Cash Used by Capital and Related Financing Activities	<u>(456,777)</u>	<u>(437,540)</u>
<u>Cash Flows From Investing Activities</u>		
Income received on investments	12,301	12,324
Purchase of investment securities	(4,951)	(4,243)
Net Cash Provided (Used) By Investing Activities	<u>7,350</u>	<u>8,081</u>
<u>Net Increase (Decrease) in Cash Equivalents</u>	52,457	(126,506)
<u>Cash Equivalents-Beginning of Year</u>	<u>376,248</u>	<u>502,754</u>
<u>Cash Equivalents-End of Year</u>	<u>\$ 428,705</u>	<u>\$ 376,248</u>
<u>Reconciliation of Operating Income to Net Cash Provided</u>		
<u>By Operating Activities</u>		
Operating Income (Loss)	\$ 51,100	\$ (94,732)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	403,855	402,542
Provision for uncollectible accounts	(1,572)	(143)
Change in assets and liabilities		
Decrease (increase) in accounts receivable	40,114	4,417
Decrease (increase) in inventory	3,760	10,274
Decrease (increase) in prepayments	(2,834)	(1,333)
Increase (decrease) in accounts payable	(7,869)	(8,790)
Increase (decrease) in customer deposits	3,220	2,625
Increase (decrease) in accrued liabilities	12,110	(11,907)
Net Cash Provided By Operating Activities	<u>\$ 501,884</u>	<u>\$ 302,953</u>
<u>Reconciliation of Total Cash</u>		
Current Assets - Cash	\$ 166,225	\$ 99,004
Restricted Assets - Cash	262,480	277,244
Total Cash	<u>\$ 428,705</u>	<u>\$ 376,248</u>

Non-cash Investing, Capital and Related Financing Activities - None

See notes to financial statements.