

Rubin & Hays

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

March 28, 2016

RECEIVED

MAR 31 2016

Public Service
Commission

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

Case No. 2016-00133

Re: Henderson County Water District PSC Application

Dear Mr. Derouen:

Enclosed please find the original and ten (10) copies of the Application of the Henderson County Water District for an Order authorizing the District to issue securities pursuant to KRS 278.300.

This Application requests approval of the issuance of securities for the purpose of reamortizing a loan of the District through the Kentucky Rural Water Finance Corporation.

Please be advised that the District is requesting the Commission to expedite this Application and issue the approving Order on or before May 1, 2016 due to the fact that an upward shift in the current interest rate market could negate any interest cost savings to the District.

Thank you for your assistance and if you need any additional information or documentation, please let us know.

Sincerely,

Rubin & Hays

By 
W. Randall Jones

WRJ:jl
Enclosures

cc: Mr. Pete Conrad, Henderson County Water District
Ms. Kristen Millard, Raymond James and Associates
J. Christopher Hopgood, Esq.

RECEIVED

MAR 31 2016

Public Service
Commission

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:

THE APPLICATION OF HENDERSON COUNTY)
 WATER DISTRICT TO ISSUE SECURITIES IN)
 THE APPROXIMATE PRINCIPAL AMOUNT OF)
 \$3,225,000 FOR THE PURPOSE OF REAMORTIZING) CASE NO. 2016 - 00133
 A CERTAIN OUTSTANDING LOAN OF THE)
 DISTRICT PURSUANT TO THE PROVISIONS)
 OF KRS 278.300 AND 807 KAR 5:001)

** *** **** ***** **** *** **

APPLICATION

The Applicant, Henderson County Water District (the "District"), files this Application pursuant to KRS 278.300, 807 KAR 5:001, and all other applicable laws and regulations, and requests that the Kentucky Public Service Commission (the "Commission") enter an Order authorizing the District to issue certain securities in the approximate principal amount of \$3,225,000 (subject to adjustment of up to 10%), for the purpose of reamortizing a certain outstanding loan of the District. In support of this Application, and in compliance with the rules and regulations of the Commission, the District states as follows:

1. The District was established in accordance with the provisions of Chapter 74 of the Kentucky Revised Statutes pursuant to an Order of the County Judge/Executive of Henderson County, which Order is on file in the County Court Order Books in the office of the Clerk of Henderson County, Kentucky. The District is now, and has been since its inception, regulated by

the Commission, and all records and proceedings of the Commission with reference to the District are incorporated in this Application by reference. The District does not have any Articles of Incorporation due to the fact that it is a statutory entity.

2. The governing body of the District is its Board of Commissioners which is a public body corporate, with power to make contracts in furtherance of its lawful and proper purpose as provided for in KRS 74.070 and all applicable law and regulations.

3. The mailing address of the District is as follows:

Henderson County Water District
c/o Mr. Pete Conrad, Superintendent
P.O. Box 655
Henderson, Kentucky 42419
Telephone: (270) 826-9802
Fax: (270) 826-9808
Email: pconrad@hendersoncounty.ky.gov

4. A general description of the District's water system property, together with a statement of the original cost, is contained in the District's Annual Report for 2015 which is on file with the Commission. The Annual Report is incorporated herein by reference.

5. The District proposes to borrow funds from the Kentucky Rural Water Finance Corporation ("KRWFC") pursuant to an amended assistance agreement (the "KRWFC Loan"), in the estimated principal amount of \$3,225,000 (subject to adjustment of up to 10%) for the purpose of reamortizing an outstanding loan from KRWFC designated as Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2006A, dated April 11, 2006, in the original principal amount of \$4,692,000 (the "Prior Loan"). The Prior Loan is currently held in the open market.

6. The estimated debt service for the KRWFC Loan is shown in **Exhibit A** which is attached hereto and incorporated herein by reference. The debt service schedule and estimated interest rates are subject to change because of market conditions. The final terms and details of the KRWFC Loan may vary from the present assumptions based upon market conditions and other business judgment factors.

7. The KRWFC Loan will provide the District with the funds necessary to (i) reamortize the Prior Loan pursuant to an amended assistance agreement; and (ii) pay the fees and expenses incident to the issuance of the KRWFC Loan.

8. The Sources and Uses of Funds to be obtained from the issuance of the KRWFC Loan are detailed as **Exhibit B**, which is attached hereto and incorporated herein by reference.

9. It is anticipated that the proposed reamortization will result in a net present value cashflow savings of approximately \$164,494.06. These savings are shown on the Debt Service Comparison, which is attached hereto and incorporated herein by reference as **Exhibit C**.

10. The final principal amount of the KRWFC Loan will be adjusted based upon final interest rates which will be known on or about the date of sale of the proposed KRWFC Loan. Final financial figures will be submitted to the Commission in a timely manner. The Applicant will not issue the securities if interest rates in the bond market shift to a point where the Applicant will not achieve any debt service savings.

11. The Debt Service Schedule of the outstanding Prior Loan being reamortized is set forth in **Exhibit D**.

12. The District represents that the KRWFC Loan is in the public interest and is intended to accomplish the purpose of strengthening the financial condition of the District by producing

substantial debt service savings. This is a lawful object within the corporate purposes of the District's utility operations. The KRWFC Loan is necessary, appropriate for, and consistent with the proper performance by the District of its service to the public and will not impair its ability to perform that service.

13. The District represents that it will, as soon as reasonably possible after the closing of the KRWFC Loan, file with the Commission a statement setting forth the date of issuance of the KRWFC Loan, the price paid, the fees and expenses incurred in the issuance of the KRWFC Loan, and the terms and interest rates of the KRWFC Loan.

14. The detailed Statement of Revenues, Expenses and Changes in Net Position, Statement of Net Position and Statement of Cash Flows for the twelve month period ending on December 31, 2014 are attached hereto and incorporated herein by reference as **Exhibit E** respectively.

15. Pursuant to 807 KAR 5:001, Section 12 - Financial Exhibit; the District hereby responds as follows:

- (i) Section 12(1)(b): The District states that it had less than \$5,000,000 in gross annual revenue in the immediate past calendar year and that no material changes to the District's financial condition have occurred since the end of the twelve (12) month period contained in the District's most recent annual report on file with the Commission.
- (ii) Section 12(2)(a), (b) and (c) Stock: The District does not have any authorized, issued or outstanding stock as of the date hereof.

- (iii) Section 12(2)(d) Mortgages: The District does not have any outstanding mortgages as of the date hereof.
 - (iv) Section 12(2)(e), (f) and (g) Indebtedness: The information concerning the outstanding indebtedness of the District is contained in the 2015 Annual Report on file with this Commission.
 - (v) Section 12(2)(h) Dividends: The District has no outstanding stock and therefore pays no dividends.
 - (vi) Section 12(2)(i) Financial Statements: See paragraph #14 above.
16. Pursuant to 807 KAR 5:001, Section 18, the District hereby responds as follows:
- (i) Section 18(1)(a): The District has complied with the requirements of 807 KAR 5:001, Section 14.
 - (ii) Section 18(1)(b): A general description of the District's property, its field of operation and a statement of original cost of said property and the cost to the District is contained in the District's 2015 Annual Report on file with this Commission.
 - (iii) Section 18(1)(c): The District is not issuing any stock as part of this financing. The information concerning the proposed KRWFC Loan is contained in this Application. The KRWFC Loan will be secured by and payable from the gross revenues of the District's water system.
 - (iv) Section 18(1)(d): The proceeds of the KRWFC Loan are being used to reamortize the outstanding Prior Loan.

- (v) Section 18(1)(e): No property is being acquired with the proceeds of the KRWFC Loan.
- (vi) Section 18(1)(f): The details of the reamortization of the Prior Loan are contained in this Application and the Exhibits hereto.
- (vii) Section 18(1)(g): Written notification of the proposed issuance of the KRWFC Loan is being provided to the State Local Debt Officer.
- (viii) Section 18(2)(a): See paragraph #15 above.
- (ix) Section 18(2)(b): The District does not have any outstanding trust deeds or mortgages.
- (x) Section 18(2)(c): No property is being acquired with the proceeds of the KRWFC Loan.

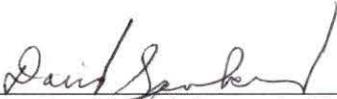
17. No rate adjustment will be necessary.

WHEREFORE, the District respectfully requests that the Commission take the following actions:

1. Authorize the issuance of the securities requested in the Application;
2. Due to the volatility of the present bond market and in order to achieve substantial interest cost savings to the District by taking full advantage of current low interest rates, the District requests that the Commission issued its Order on or before **May 1, 2016**; and
3. Process this Application without a formal hearing in order to save time and expense.

The District will promptly respond to any information requests by the Commission's staff.

Henderson County Water District

By 
David Spainhoward, Chairman
P.O. Box 655
Henderson, Kentucky 42419
Phone: (270) 826-9802
Fax: (270) 826-9808
Email: pconrad@hendersoncounty.ky.gov

Rubin & Hays

By 
W. Randall Jones
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202
Phone: (502) 569-7525
Fax: (502) 569-7555
Counsel for Henderson County Water District
wrjones@rubinhays.com

STATE OF KENTUCKY)
) SS
COUNTY OF HENDERSON)

The affiant, David Spainhoward, being first duly sworn, states: That he is the Chairman of the Henderson County Water District, the Applicant in this case; that he has read the foregoing Application and has noted the contents thereof; that the same are true of his own knowledge and belief, except as to matters which are herein stated to be based on information or belief, and that these matters, he believes to be true and correct.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on the 23 day of March, 2016.

David Spainhoward
David Spainhoward, Chairman

SUBSCRIBED, SWORN TO AND ACKNOWLEDGED before me by David Spainhoward, Chairman of the Henderson County Water District, on this the 23 day of March, 2016.

My Commission expires: October 4th 2017

Lisa Welch 498544
NOTARY PUBLIC



Preliminary

\$3,225,000

Henderson County Water District
Potential Refunding through the
Kentucky Rural Water Finance Corporation

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
03/30/2016	-	-	-	-	-
08/01/2016	-	-	31,954.92	31,954.92	-
12/31/2016	-	-	-	-	31,954.92
02/01/2017	300,000.00	2.350%	47,536.25	347,536.25	-
08/01/2017	-	-	44,011.25	44,011.25	-
12/31/2017	-	-	-	-	391,547.50
02/01/2018	315,000.00	2.250%	44,011.25	359,011.25	-
08/01/2018	-	-	40,467.50	40,467.50	-
12/31/2018	-	-	-	-	399,478.75
02/01/2019	320,000.00	2.600%	40,467.50	360,467.50	-
08/01/2019	-	-	36,307.50	36,307.50	-
12/31/2019	-	-	-	-	396,775.00
02/01/2020	330,000.00	2.700%	36,307.50	366,307.50	-
08/01/2020	-	-	31,852.50	31,852.50	-
12/31/2020	-	-	-	-	398,160.00
02/01/2021	345,000.00	2.650%	31,852.50	376,852.50	-
08/01/2021	-	-	27,281.25	27,281.25	-
12/31/2021	-	-	-	-	404,133.75
02/01/2022	355,000.00	2.850%	27,281.25	382,281.25	-
08/01/2022	-	-	22,222.50	22,222.50	-
12/31/2022	-	-	-	-	404,503.75
02/01/2023	365,000.00	3.600%	22,222.50	387,222.50	-
08/01/2023	-	-	15,652.50	15,652.50	-
12/31/2023	-	-	-	-	402,875.00
02/01/2024	290,000.00	3.600%	15,652.50	305,652.50	-
08/01/2024	-	-	10,432.50	10,432.50	-
12/31/2024	-	-	-	-	316,085.00
02/01/2025	295,000.00	3.500%	10,432.50	305,432.50	-
08/01/2025	-	-	5,270.00	5,270.00	-
12/31/2025	-	-	-	-	310,702.50
02/01/2026	310,000.00	3.400%	5,270.00	315,270.00	-
12/31/2026	-	-	-	-	315,270.00
Total	\$3,225,000.00	-	\$546,486.17	\$3,771,486.17	-

Yield Statistics

Bond Year Dollars	\$17,166.46
Average Life	5.323 Years
Average Coupon	3.1834532%
Net Interest Cost (NIC)	2.8114452%
True Interest Cost (TIC)	2.7618254%
Bond Yield for Arbitrage Purposes	2.8450302%
All Inclusive Cost (AIC)	3.0864755%

IRS Form 8038

Net Interest Cost	2.4189380%
Weighted Average Maturity	5.357 Years

Raymond James

Public Finance

Preliminary

\$3,225,000

Henderson County Water District
Potential Refunding through the
Kentucky Rural Water Finance Corporation

Sources & Uses

Dated 03/30/2016 | Delivered 03/30/2016

Sources Of Funds

Par Amount of Bonds	\$3,225,000.00
Reoffering Premium	113,848.10
Transfers from Prior Issue Debt Service Funds	34,410.79

Total Sources **\$3,373,258.89**

Uses Of Funds

Total Underwriter's Discount (1.550%)	49,987.50
Costs of Issuance	50,875.00
Deposit to Current Refunding Fund	3,271,964.75
Rounding Amount	431.64

Total Uses **\$3,373,258.89**

Preliminary

\$3,225,000

Henderson County Water District
Potential Refunding through the
Kentucky Rural Water Finance Corporation

Debt Service Comparison

Date	Total P+I	Net New D/S	Old Net D/S	Savings
12/31/2016	31,954.92	31,954.92	66,964.75	35,009.83
12/31/2017	391,547.50	391,547.50	407,349.50	15,802.00
12/31/2018	399,478.75	399,478.75	413,681.00	14,202.25
12/31/2019	396,775.00	396,775.00	413,219.38	16,444.38
12/31/2020	398,160.00	398,160.00	416,143.13	17,983.13
12/31/2021	404,133.75	404,133.75	417,300.00	13,166.25
12/31/2022	404,503.75	404,503.75	417,705.00	13,201.25
12/31/2023	402,875.00	402,875.00	418,366.25	15,491.25
12/31/2024	316,085.00	316,085.00	331,150.00	15,065.00
12/31/2025	310,702.50	310,702.50	328,272.50	17,570.00
12/31/2026	315,270.00	315,270.00	329,863.75	14,593.75
Total	\$3,771,486.17	\$3,771,486.17	\$3,960,015.26	\$188,529.09

PV Analysis Summary (Net to Net)

Net FV Cashflow Savings	188,529.09
Gross PV Debt Service Savings	164,494.06
Net PV Cashflow Savings @ 3.086%(AIC)	164,494.06
Transfers from Prior Issue Debt Service Fund	(34,410.79)
Contingency or Rounding Amount	431.64
Net Present Value Benefit	\$130,514.91
Net PV Benefit / \$3,205,000 Refunded Principal	4.072%
Net Future Value Benefit	\$154,549.94
Net PV Benefit / \$3,225,000 Refunding Principal	4.047%
Average Annual Cash Flow Savings	18,852.91

Refunding Bond Information

Refunding Dated Date	3/30/2016
Refunding Delivery Date	3/30/2016

Preliminary

\$2,838,000

Henderson County Water District
Kentucky Rural Water Finance Corporation
Series 2006 A

Total Refunded Debt Service

Date	Principal	Coupon	Interest	Total P+I
12/31/2016	-	-	41,964.25	41,964.25
12/31/2017	131,000.00	-	81,308.50	212,308.50
12/31/2018	140,000.00	-	75,818.50	215,818.50
12/31/2019	144,000.00	-	69,978.50	213,978.50
12/31/2020	152,000.00	-	63,873.50	215,873.50
12/31/2021	160,000.00	-	57,378.50	217,378.50
12/31/2022	168,000.00	-	50,490.50	218,490.50
12/31/2023	176,000.00	-	43,222.50	219,222.50
12/31/2024	298,000.00	-	33,150.00	331,150.00
12/31/2025	308,000.00	-	20,272.50	328,272.50
12/31/2026	323,000.00	4.250%	6,863.75	329,863.75
Total	\$2,000,000.00	-	\$544,321.00	\$2,544,321.00

Yield Statistics

Base date for Avg. Life & Avg. Coupon Calculation	3/30/2016
Average Life	6.275 Years
Average Coupon	4.2278799%
Weighted Average Maturity (Par Basis)	6.275 Years
Weighted Average Maturity (Original Price Basis)	6.263 Years

Refunding Bond Information

Refunding Dated Date	3/30/2016
Refunding Delivery Date	3/30/2016

Preliminary

\$1,854,000

Henderson County Water District
Kentucky Rural Water Finance Corporation
Series 2006 A

Total Refunded Debt Service

Date	Principal	Coupon	Interest	Total P+I
12/31/2016	-	-	25,000.50	25,000.50
12/31/2017	148,000.00	-	47,041.00	195,041.00
12/31/2018	157,000.00	-	40,862.50	197,862.50
12/31/2019	165,000.00	-	34,240.88	199,240.88
12/31/2020	173,000.00	-	27,269.63	200,269.63
12/31/2021	180,000.00	-	19,921.50	199,921.50
12/31/2022	187,000.00	-	12,214.50	199,214.50
12/31/2023	195,000.00	4.250%	4,143.75	199,143.75
Total	\$1,205,000.00	-	\$210,694.26	\$1,415,694.26

Yield Statistics

Base date for Avg. Life & Avg. Coupon Calculation	3/30/2016
Average Life	4.015 Years
Average Coupon	4.1851621%
Weighted Average Maturity (Par Basis)	4.015 Years
Weighted Average Maturity (Original Price Basis)	4.012 Years

Refunding Bond Information

Refunding Dated Date	3/30/2016
Refunding Delivery Date	3/30/2016

Henderson County Water District
 Statements of Net Position
 As of December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
	<u>(Audited)</u>	<u>(Compiled)</u>
Assets and Deferred Outflows		
<u>Current assets:</u>		
Cash and cash equivalents	\$ 688,310	\$ 889,752
Investments, at cost	570,869	605,517
Receivables, net of allowance for uncollectible amounts	312,196	355,484
Interest receivable	4,544	4,544
Inventories	86,367	114,398
Prepaid expenses	33,454	32,039
Total current assets	<u>1,695,740</u>	<u>2,001,734</u>
<u>Utility, plant, and equipment:</u>	<u>13,170,226</u>	<u>12,660,088</u>
<u>Other non-current assets:</u>		
Restricted cash and cash equivalents	435,502	394,716
Restricted investments, at cost	292,936	384,326
Bond discounts	21,866	87,856
Total other non-current assets	<u>750,304</u>	<u>866,898</u>
Total assets	<u>15,616,270</u>	<u>15,528,720</u>
<u>Deferred outflows:</u>		
Loss on defeasance of bonds	119,139	147,328
Total assets and deferred outflows	<u>\$ 15,735,409</u>	<u>\$ 15,676,048</u>
Liabilities and Net Position		
<u>Liabilities:</u>		
<u>Current liabilities:</u>		
Accounts payable	\$ 122,776	\$ 266,221
Interest payable	152,098	86,793
Other liabilities	52,728	45,658
Bonds and notes payable-current portion	291,000	267,016
Total current liabilities	<u>618,602</u>	<u>665,688</u>
<u>Non-current liabilities:</u>		
Customer security deposits	83,372	77,905
Bonds and notes payable-net of current portion	5,450,000	5,200,710
Total non-current liabilities	<u>5,533,372</u>	<u>5,278,615</u>
Total liabilities	<u>6,151,974</u>	<u>5,944,303</u>
<u>Net position:</u>		
Invested in capital assets, net of related debt	7,429,226	7,192,362
Restricted for debt service	728,438	779,042
Unrestricted	1,425,771	1,760,341
Total net position	<u>9,583,435</u>	<u>9,731,745</u>
Total liabilities and net position	<u>\$ 15,735,409</u>	<u>\$ 15,676,048</u>

The accompanying notes are an integral part of these financial statements.

Henderson County Water District
 Statements of Cash Flows
 For the fiscal years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
	(Audited)	(Compiled)
<u>Cash flows from operating activities:</u>		
Cash received from customers	\$ 2,711,022	\$ 2,449,506
Cash payments to suppliers for goods and services	(1,678,509)	(1,387,404)
Cash payments to employees for services	(627,371)	(657,638)
Other operating revenues	109,820	105,442
Net cash provided by operating activities	<u>514,962</u>	<u>509,906</u>
<u>Cash flows from non-capital financing activities:</u>		
Increase in customer deposits	5,467	3,642
Net cash provided by noncapital financing activities	<u>5,467</u>	<u>3,642</u>
<u>Cash flows from capital and related financing activities:</u>		
Acquisition and construction of capital assets	(935,106)	(1,891,101)
Capital contributions	80,925	193,362
Proceeds from bond issuance	540,290	1,454,710
Principal paid on revenue bond maturities and other capital notes	(267,016)	(243,016)
Interest paid on revenue bonds and other capital notes	(239,950)	(172,936)
Net cash used by capital and related financing activities	<u>(820,857)</u>	<u>(658,981)</u>
<u>Cash flows from investing activities:</u>		
Decrease in investment securities	126,038	139,308
Interest income	13,734	18,269
Net cash provided by investing activities	<u>139,772</u>	<u>157,577</u>
Net increase (decrease) in cash and cash equivalents	(160,656)	12,144
Cash and cash equivalents, beginning of year	1,284,468	1,272,324
Cash and cash equivalents, end of year	<u>\$ 1,123,812</u>	<u>\$ 1,284,468</u>
<u>Reconciliation of operating income to net cash provided (used) by operating activities:</u>		
Operating income	\$ 201,984	\$ 263,305
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	379,449	184,269
(Increase) decrease in accounts receivable	43,288	20,381
(Increase) decrease in inventories	28,031	(43,261)
(Increase) decrease in prepaid expenses	(1,415)	(9,093)
Increase (decrease) in accounts payable	(143,445)	97,494
Increase (decrease) in accrued liabilities	7,070	(3,189)
Net cash provided by operating activities	<u>\$ 514,962</u>	<u>\$ 509,906</u>
<u>Summary of cash and cash equivalents:</u>		
Unrestricted cash equivalents	\$ 688,310	\$ 889,752
Restricted cash equivalents	435,502	394,716
Total cash equivalents	<u>\$ 1,123,812</u>	<u>\$ 1,284,468</u>

The accompanying notes are an integral part of these financial statements.

2014	2013
(Audited)	(Compl'd)
\$ 2,667,734	\$ 2,429,125
109,820	105,442
<u>2,777,554</u>	<u>2,534,567</u>
Operating revenues:	
Water	
Penalties and sundry	
Total operating revenues	
Operating expenses:	
Purchased water	
Pumping utilities	
Maintenance of system	
Vehicle and equipment	
Customer accounts	
Administration	
Depreciation	
1,112,652	1,068,130
49,248	44,011
252,350	256,570
51,538	54,673
231,827	179,636
498,506	483,973
379,449	184,269
<u>2,575,570</u>	<u>2,271,262</u>
<u>201,984</u>	<u>263,305</u>
Non-operating revenues (expenses):	
Investment income	
13,734	18,269
Interest expense	
(305,255)	(171,293)
Amortization	
(25,029)	(37,948)
Bond issuance costs	
(8,858)	-
Loss on disposal of assets	
(47,914)	(263,011)
<u>(373,322)</u>	<u>(455,983)</u>
Loss before contributions	
(171,338)	(192,678)
Capital contributions	
80,925	193,362
<u>(90,413)</u>	<u>684</u>
Change in net position	
(Cumulative effect of change in accounting principle)	
(57,897)	-
9,731,745	9,731,061
<u>\$ 9,583,435</u>	<u>\$ 9,731,745</u>
Net position, end of year	
Net position, beginning of year	

Henderson County Water District
Statements of Revenues, Expenses, and Changes in Net Position
For the fiscal years ended December 31, 2014 and 2013