

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GALLATIN COUNTY WATER)	
DISTRICT TO ISSUE SECURITIES IN THE)	
APPROXIMATE PRINCIPAL AMOUNT OF)	
\$1,175,000 FOR THE PURPOSE OF)	CASE NO.
REFUNDING CERTAIN OUTSTANDING)	2017-00197
REVENUE BONDS OF THE DISTRICT)	
PURSUANT TO THE PROVISIONS OF KRS)	
278.300 AND 807 KAR 5:001)	

ORDER

On May 10, 2017, Gallatin County Water District ("Gallatin County") filed an application for authorization to enter into an assistance agreement with the Kentucky Rural Water Finance Corporation ("KRWFC") to borrow approximately \$1,175,000, subject to an adjustment of up to 10 percent, to refund existing bond indebtedness.¹ There are no interveners in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

The Commission notes that in its 2015 Annual Report Gallatin County reported a water loss of 15.8367 percent.² Commission regulation 807 KAR 5:066(6)(3) states that "for rate making purposes a utility's unaccounted-for water loss shall not exceed fifteen (15) percent of total water produced and purchased, excluding water consumed by a utility in its own operations."

¹ Application at paragraph 5.

² *Annual Report of Gallatin County to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2015* at 61, line 33.

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the fifteen (15) percent unaccounted-for water loss threshold and strongly encourages Gallatin County to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Gallatin County to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

Gallatin County, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that provide retail water service to 1,933 customers in Boone, Gallatin, and Grant counties, Kentucky.³

Gallatin County proposes to execute an assistance agreement with KRWFC to borrow \$1,175,000, subject to an adjustment of up to 10 percent. The proposed loan will have a 25-year term subject to interest rates of up to 4.05 percent.⁴ Gallatin County intends to use the proceeds from the assistance agreement to fully refund the outstanding Waterworks Revenue Bonds Series A 1988 dated January 19, 1989; Series B 1988 dated January 19, 1989; Series 1993 dated November 15, 1993; Series 1996 dated June 18, 1996; Series A 2000 dated November 16, 2000; Series B 2000 dated November 16, 2000; and Series 2002 dated February 14, 2003, that are held by the United States Department of Agriculture Rural Development in the amounts of \$290,000, \$108,000, \$420,000, \$371,000, \$370,000, \$112,000, and \$130,000, respectively.⁵ Gallatin County estimates that its proposed refinancing will result in total

³ *Id.* at 12 and 53.

⁴ Application, Exhibit A.

⁵ The current outstanding balances are shown in the Application at Exhibit D. Each bond series is identified by its applicable Series.

gross savings of \$139,736 and net present value savings of \$104,878.⁶ Additionally, Gallatin County will expend \$1,235,027 to refund the outstanding bonds and to pay bond issuance costs.⁷

The final amounts of the KRWFC loan will not be known until the refinancing transaction is finalized. Therefore, Gallatin County should provide the Commission with the exact amount of the new KRWFC loan within ten days of finalizing the transaction. In addition, Gallatin County should provide an updated version of Exhibit C of its application reflecting the cash-flow analysis of the new KRWFC loan. Gallatin County should not enter into the transaction if the interest rates in the bond market shift upwards to a point at which the transaction will not produce both positive gross savings and net present value savings.

The Commission, after consideration of the evidence of record and being sufficiently advised, finds that:

1. The loan from KRWFC is for a lawful object within the corporate purposes of Gallatin County, is necessary and appropriate for and consistent with the proper performance by the utility of its service to the public, will not impair its ability to perform that service, is reasonable, necessary and appropriate for such purposes and should be approved.
2. The issuance of the securities shall be executed in the manner described in Gallatin County's application.

⁶ Application, Exhibit C. The utility identifies "gross savings" and "net present value savings" as "net benefit" and "net present value benefit," respectively.

⁷ *Id.*, Exhibit B. \$17,625 (Underwriters Discount) + \$20,125 (Cost of Issuance) + \$1,193,288 (Deposit to Current Refunding Fund) + \$3,989 (Rounding) = \$1,235,027. The Sources of the Funds are \$1,175,000 (Par Amount of Bonds) + \$24,622 (Reoffering Premium) + \$35,405 (Transfers from Prior Issue Debt Service Funds) = \$1,235,027.

3. Within ten days of finalizing the refinancing transaction, Gallatin County should notify the Commission in writing of the exact amount of the KRWFC loan. Gallatin County should include with the notice an updated version of Exhibit C from its application reflecting the savings based on the actual amount of the KRWFC loan.

4. Within ten days of the execution of the KRWFC loan documents, Gallatin County should file with the Commission one copy in paper medium of the loan documents.

5. The proceeds from the proposed loan should be used only for the lawful purposes set out in Gallatin County's application.

IT IS THEREFORE ORDERED that:

1. Gallatin County is authorized to enter into an agreement with KRWFC to borrow no more than \$1,292,500⁸ for the purpose of refunding the outstanding indebtedness, but only under such terms and conditions that will produce both positive gross savings and net present value savings.

2. If the actual terms and conditions of the agreement differ from those set forth in its application, Gallatin County shall, within 30 days of executing the loan agreement, file with the Commission amortization schedules and workpapers showing the actual gross savings and net present value savings that resulted from the refinancing of the Outstanding Revenue Bonds.

3. Gallatin County shall comply with all matters set out in finding paragraphs 3 through 5 as if they were individually so ordered.

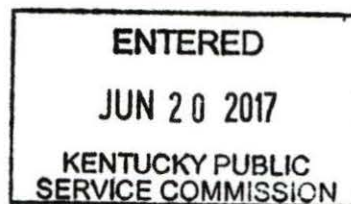
4. Any documents filed in the future pursuant to finding paragraphs 3 and

⁸ \$1,175,000 x 110% = \$1,292,500.

4 herein shall reference this case number and shall be retained in the utility's general correspondence file.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

By the Commission



ATTEST:



Executive Director

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