

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF TRIMBLE COUNTY)
WATER DISTRICT NUMBER 1 OF TRIMBLE)
COUNTY, KENTUCKY, FOR APPROVAL OF)
THE PURCHASE AT A DISCOUNT FROM) CASE NO. 10287
THE FmHA AND THE REFINANCING OF)
CERTAIN OUTSTANDING BONDS THROUGH)
THE ISSUANCE OF REFUNDING BONDS)
OF 1988)

O R D E R

On June 10, 1988, Trimble County Water District Number 1 ("Trimble") filed an application seeking authority to issue Revenue Refunding Bonds in the amount of \$360,000.

The purpose of the Refunding Bonds is to prepay certain indebtedness to the Farmers Home Administration ("FmHA") pursuant to the FmHA's discount prepayment program ("FmHA's Program"). Trimble is currently indebted to the FmHA for approximately \$564,386.33 and can repurchase those loans for approximately \$354,272. The Refunding Bonds will be subject to a floating rate of interest and a monthly amortization. The initial interest rate will bear 9.50 percent for 3 years, subject to adjustments thereafter at 1.0 percent over prime as outlined in the application. Savings for Trimble have been estimated at a net present value of \$22,203.51, which is the difference between the present value of the current debt service requirements discounted at 11.291 percent, \$382,203.51 and the amount to be borrowed,

\$360,000, which includes refinancing costs. The discount rate of 11.291 percent was determined from the cashflows associated with the proposed \$360,000 refinancing and based on a worst-case interest rate scenario. However, the Commission is concerned that the effective cost of funds to Trimble has been understated because the refinancing cost has not been reflected in the discount rate. The discount rate should have been calculated based on a repayment of the FmHA debt of \$354,276.61 from the cashflows of the \$360,000 loan amount. Although the understatement of the discount rate has led to an overstatement of the net present value, a net savings will still be realized in this case.

Therefore, the Commission, having considered the evidence of record and being advised, is of the opinion and finds that the issuance and sale of the above securities by Trimble are for the lawful object within the purposes of Trimble's utility operations, are necessary and appropriate for and consistent with the proper performance of its service to the public, and will not impair its ability to perform that service, and are reasonably necessary and appropriate for such purpose and should, therefore, be approved contingent upon a showing that overall revenue requirements are lower as a result of the refinancing.

IT IS THEREFORE ORDERED that:

1. Trimble be and it hereby is authorized to issue, sell, and deliver long-term debt during 1988, with an aggregate principal value not to exceed \$360,00 in an underwritten public offering, through either negotiated sale or competitive bidding,

or private placement transaction utilizing the proper documentation.

2. The Refunding Bonds result in a savings when compared on a present value basis to the outstanding securities being refunded. Present value shall be based on the discounted cashflows at the effective overall embedded cost, including recovery of issuance expenses.

3. The proceeds from the transactions authorized herein shall be used only for the lawful purposes as set out in the application.

4. Trimble shall, as soon as reasonably possible after the issuance of the securities referred to herein, file with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest rate, the purchasers, and all fees and expenses, including underwriting discounts or commission or other compensation, involved in the issuance of distribution.

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.

Done at Frankfort, Kentucky, this 27th day of June, 1988.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director