

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GRANT COUNTY SANITARY)
SEWER DISTRICT FOR APPROVAL TO ENTER)
INTO A LEASE AGREEMENT WITH THE BANK OF)
KENTUCKY, INC. IN A PRINCIPAL AMOUNT NOT)
TO EXCEED \$1,100,000.00 FOR THE PURPOSE) CASE NO. 2012-00471
OF REFINANCING CERTAIN OUTSTANDING)
DEBT OBLIGATIONS BETWEEN THE KENTUCKY)
RURAL WATER FINANCE CORPORATION AND)
THE CITY OF CRITTENDEN, KENTUCKY)

ORDER

Grant County Sanitary Sewer District ("Grant District") has applied to the Commission for authorization to enter into a lease finance agreement with The Bank of Kentucky, Inc. ("Bank").¹

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

1. Grant District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that provide sewage collection and treatment services to approximately 1,416 customers in Grant County, Kentucky.²

¹ Grant District tendered its application on October 22, 2012. It supplemented this application on November 2, 2012. In its Application, Grant District sought a deviation "necessary to accommodate any situation where inflexible compliance with a regulation would be impractical or which would hinder the District's daily operation." Its references to the period covered by its financial audit report reflected a recognition that a deviation from 807 KAR 5:001, Section 11(2)(a), was necessary. Considering Grant District's request as a motion to deviate from 807 KAR 5:001, Section 11(2)(a), the Commission authorized Grant District to deviate from 807 KAR 5:001, Section 11(2)(a), and accepted Grant District's application for filing on November 19, 2012. No person or entity has sought intervention in this proceeding.

² *Annual Report of Grant County Sanitary Sewer District to the Public Service Commission for the Calendar Year Ended December 31, 2011* at 1 and 12.

2. Grant District proposes to execute a Lease Finance Agreement with the Bank under which Grant District will lease to the Bank certain of its sewage treatment and collection facilities and the Bank will sublease those facilities to Grant District. The lease and sublease are for a 10-year period.

3. Upon execution of the Lease Finance Agreement, the Bank will pay to Grant District an amount not to exceed \$1,100,000 to lease Grant District's facilities.

4. Under the terms of the Lease Finance Agreement, Grant District shall transfer this amount to Kentucky Rural Water Finance Corporation ("KRWFC") to retire the debt obligation created by an Assistance Agreement between the City of Crittenden ("Crittenden") and KRWFC to finance Crittenden's construction of a sewage treatment plant and two pump stations ("Assistance Agreement").³ Grant District assumed Crittenden's obligations under the Assistance Agreement when it acquired Crittenden's sewage treatment and collection facilities.⁴

5. Grant District will make monthly rental payments to the Bank consisting of a principal component and an interest component. The principal component reflects the repayment of the Bank's original payment. The interest component reflects interest payments on the outstanding principal at an interest rate of 2.8 percent per annum.⁵

³ App. Ex. 3, § 4. See also *Grant County Sanitary Sewer District Financial Statements for the Years Ended December 31, 2011 and 2010* (filed July 31, 2012) at 5.

⁴ Agreement between the City of Crittenden and Grant County Sanitary Sewer District, § VI (filed in Case No. 2005-00314, *Application of the Grant County Sanitary Sewer District for Authority to Adjust Rates* (Ky. PSC filed July 26, 2005)).

⁵ App. Ex. 3, § 7.

6. As of December 1, 2012, approximately \$1,043,000 of principal sum borrowed through the Assistance Agreement remained outstanding. The interest rate on the outstanding principal varies from 4.9 percent to 5.15 percent per annum.⁶

7. Grant District estimates that execution of the Lease Finance Agreement will result in total gross savings and net present value savings of \$132,110 and \$93,705, respectively.⁷

8. Grant District will expend \$1,098,608 to retire its outstanding obligations under the Assistance Agreement and to execute the Leasing Finance Agreement.⁸

9. The proposed Lease Finance Agreement is an evidence of indebtedness that Grant District may not issue without prior Commission authorization.

10. Grant District's execution of the proposed Lease Finance 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 Grant District's ability to perform that service, and is reasonably necessary and appropriate for such purpose.

⁶ App. Ex. 6, "Debt Service to Maturity and to Call."

⁷ *Id.*, "Debt Service Comparison." The debt service payment under the Assistance Agreement for the year 2013 is shown in this exhibit as \$127,580.33. Exhibit A of the Assistance Agreement shows this payment as \$123,237.25 (\$73,000 + \$26,058.5 + \$24,178.75). See App. Ex. 2. This discrepancy overstates Grant District's calculated gross savings by \$4,343.08. Grant District also omitted an annual trustee fee of \$350 to be paid in addition to the principal and interest payments under the Assistance Agreement. This omission understates the gross savings by \$3,500 (\$350 annual payments x 10 years). These two discrepancies result in a net overstatement to gross savings of \$843.08, or .64 percent. This amount is not material to the calculations.

⁸ App. Ex. 6, "Debt Service Comparison." \$9,500 (Cost of Issuance) + \$1,085,575 (Deposit to Current Refunding Fund) + \$3,533 (Rounding) = \$1,098,608. The sources of the funds are the principal amount of the Bank's lease payment (\$1,003,000) and transfers from the Assistance Agreement's Debt Service Funds (\$95,608).

IT IS THEREFORE ORDERED that:

1. Grant District is authorized to enter into the proposed Lease Finance Agreement with the Bank to receive a lease payment of no more than \$1,100,000 for the purpose of retiring its debt obligations under the Assistance Agreement, 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 Lease Finance Agreement with the Bank differ from those set forth in Grant District's application, Grant District shall, within 30 days of executing the Lease Finance Agreement, file with the Commission amortization schedules and work papers showing the actual gross savings and net present value savings that will result from the transaction.

3. Within 30 days of executing the proposed Lease Finance Agreement, Grant District shall file a copy of the executed Lease Finance Agreement, any documents referenced in the executed Lease Finance Agreement that Grant District has not previously filed with the Commission, and evidence that the state local debt officer has approved the Lease Finance Agreement as KRS 65.944 requires.

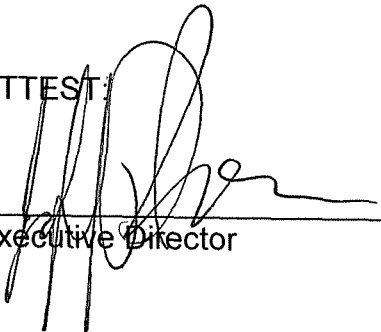
4. The proceeds from the Lease Finance Agreement shall be used only for the lawful purposes specified in Grant District's application.

5. Any documents filed pursuant to ordering paragraphs 2 and 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
ENTERED
JAN 04 2013
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2012-00471

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