

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WHITLEY COUNTY WATER	)	
DISTRICT #1 FOR APPROVAL TO ENTER INTO	)	
A LEASE AGREEMENT WITH THE KENTUCKY	)	
ASSOCIATION OF COUNTIES LEASING	)	CASE NO.
TRUST FOR AN APPROXIMATE PRINCIPAL	)	2018-00211
AMOUNT OF \$2,715,000 FOR THE PURPOSE	)	
OF REFINANCING CERTAIN OUTSTANDING	)	
OBLIGATIONS	)	

ORDER

On June 25, 2018, Whitley County Water District (Whitley District) filed an application seeking Commission approval to refinance certain debt of up to \$2,715,000 via a lease agreement with the Kentucky Association of Counties Finance Corporation (KACFC). By letter dated June 29, 2018, the Commission notified Whitley District that its application was rejected as deficient. After Whitley District corrected the filing deficiencies, the Commission accepted its application for filing on July 16, 2018. There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

The Commission notes in its 2017 Annual Report that Whitley District reported a water loss of 23.8095 percent. Commission regulation 807 KAR 5:066(6)(3) states that for ratemaking purposes a utility's unaccounted-for water loss shall not exceed 15 percent of the total water produced and purchased, excluding water consumed by a utility in its own operations.

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

Whitley District intends to use the proceeds from the proposed KACFC lease to refinance and discharge \$2,715,000 of outstanding indebtedness to the U.S. Department of Agriculture, acting through Rural Development (RD). The outstanding RD balance consists of four fixed-rate debts with original principal amounts of \$750,000, \$600,000, \$377,000, and \$1,860,000 with identical interest rates of 4.5 percent.<sup>1</sup> Whitley District proposes to refinance this RD indebtedness and the outstanding principal amounts of approximately \$460,000, \$432,000, \$287,000, and \$1,497,000, totaling \$2,676,000,<sup>2</sup> with one lease agreement of a total principal of \$2,715,000 with a 23-year term subject to interest rates that will vary between 3.0 percent and 4.0 percent per annum.<sup>3</sup> Whitley District estimates that it will expend \$2,775,323 to refund the outstanding revenue bonds. The difference between the total principal of the new lease and the total cost to refund outstanding bonds represents a premium paid to Whitley District reflecting a market value

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<sup>1</sup> Whitley District's Response to Deficiency Letter, Exhibit J.

<sup>2</sup> Whitley County Water District Response to Deficiency Letter, Exhibit J.

<sup>3</sup> Application, Exhibit A.

of the bonds that is higher than their face value, totaling \$60,323.<sup>4</sup> Whitley District requested that a decision be rendered as quickly as possible to avoid jeopardizing the potential interest cost savings due to the possibility of rising interest rates in the future.<sup>5</sup>

Whitley District stated that the KACFC loan will provide the funds necessary to refund the RD indebtedness and pay the fees and expenses incident to the issuance of the loan.<sup>6</sup> Whitley District provided a cash flow analysis which indicates that the refinancing would save \$223,961 over the life of the proposed loan, resulting in a positive net present value (NPV) cash flow of \$169,078.<sup>7</sup>

The Commission has reviewed the proposed refinancing and finds Whitley District's proposal to be reasonable due to the lower effective interest rate and cash flow savings Whitley District would see over the period of the loan. However, should the new interest rate on the proposed refinancing be higher than the range of interest rates set forth in Whitley District's application, Whitley District should not proceed with the refinancing unless the NPV of the refinancing results in a positive cash flow. The Commission commends Whitley District for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its consumers.

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<sup>4</sup> *Id.* Exhibit B Sources and Uses. Uses of Funds: \$40,725 (Total Underwriters Discount) + \$45,510 (Costs of Issuance) + \$2,686,557 (Deposit to Current Refunding Fund) + \$2,531 (Rounding Amount) = \$2,775,323. Sources of Funds: \$2,715,000 (Par Amount of Bonds) + \$60,323 (Reoffering Premium) = \$2,775,323.

<sup>5</sup> *Id.* Paragraph 20.

<sup>6</sup> *Id.* Paragraph 7.

<sup>7</sup> *Id.* Exhibit H.

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

1. The proposed loan from KACFC is for lawful objects within the corporate purposes of Whitley District; 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. Whitley District should execute its note as security for the proposed loan in the manner described in its application.

3. The final amounts of the RD payoff, the legal fees, and the new KACFC loan will not be known until the refinancing transaction is finalized. Therefore, Whitley District should provide the Commission an updated version of Application Exhibit H, reflecting the cash flow analysis of the new KACFC loan within ten days of finalizing the transaction.

4. Within ten days of the execution of the new KACFC loan documents, Whitley District should file with the Commission one copy in paper medium and an electronic version of the loan documents.

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

6. The terms and conditions of the new KACFC loan should be consistent with the KACFC refinancing program as described in Whitley District's application.

IT IS THEREFORE ORDERED that:

1. Whitley District is authorized to borrow from KACFC up to \$2,715,000, but no more than the total amount needed to pay off the RD indebtedness proposed to be refinanced as identified in the application on the condition that the final NPV of the savings, determined upon closing, generate a positive cash flow. The loan maturity date and interest rate shall be in accordance with the KACFC refinancing program as described in Whitley's application.

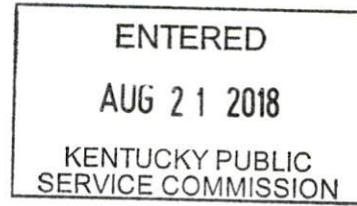
2. Whitley District shall execute the KACFC loan documents as authorized herein.

3. Whitley District shall comply with all matters set out in finding paragraphs 3 through 6 as if they were individually so ordered.

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

Case No. 2018-00211

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