

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CALDWELL COUNTY WATER)	
DISTRICT FOR APPROVAL TO ENTER INTO A)	
LEASE AGREEMENT WITH THE KENTUCKY)	CASE NO.
ASSOCIATION OF COUNTIES LEASING TRUST)	2019-00311
FOR AN APPROXIMATE PRINCIPAL AMOUNT)	
OF \$1,710,000 FOR THE PURPOSE OF)	
REFINANCING OUTSTANDING OBLIGATIONS)	

ORDER

On September 3, 2019, Caldwell County Water District (Caldwell District), filed an application (Application) seeking Commission authority to enter into a Lease Agreement (Lease) with Kentucky Association of Counties Finance Corporation (KACOFC) to borrow approximately \$1,710,000 to refinance four outstanding debt obligations to Caldwell District. Caldwell District responded to one request for information from Commission Staff. 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 that Caldwell District reported a water loss of 12.7 percent in its 2018 Annual Report.¹ Moving the 5.4 million Gallons of water attributed to unverified sabotage² from the category Other Water Used – to the category Water Loss – Other,

¹ *Annual Report of Caldwell County Water District to the Public Service Commission of the Commonwealth of Kentucky for the Calendar year Ended December 31, 2018* (2018 Annual Report) at 56.

² Caldwell District explained that the water reported as sabotage is not being "stolen," but rather fire hydrants that have been opened in various locations in its distribution system. Given that the water is not being used either by Caldwell District, a wastewater treatment facility, or by a fire department, the water lost by Caldwell District due to the claimed sabotage should be recorded in the category "Water Loss – Other."

increases Caldwell District's water loss to 18.2 percent.³ 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 continues to place greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and commends Caldwell District's efforts to identify a potential source of water loss with its investigation of possible sabotage. However, the Commission also encourages Caldwell District to pursue other reasonable actions that may help to reduce its unaccounted-for water loss.

Caldwell District proposes to execute a Lease Agreement with KACOFB to borrow \$1,710,000.⁴ The proposed lease will have a 17-year term subject to interest rates that will vary from 3.0 percent to 5.0 percent per annum.⁵ Caldwell District proposes to use the proceeds from the KACOFB lease Agreement to fully refund the Waterworks Revenue Bonds, Series 1993, with a current outstanding balance of \$241,000; Waterworks Revenue Bonds, Series 1996, with a current outstanding balance of \$586,000; Waterworks Revenue Bonds, Series 1999B, with a current outstanding balance of \$305,000; and Waterworks Revenue Bonds, Series 2002, with a current outstanding balance of \$815,000 (collectively Outstanding Revenue Bonds).⁶

³ Caldwell District's responses to Commission Staff's Request for Information, Item2.b.

⁴ *Id.* at 2.

⁵ *Id.*, Exhibit A-1, page 1.

⁶ *Id.* at 2.

Caldwell District estimates that it will expend \$1,854,003 to refund the Outstanding Revenue Bonds.⁷ The estimated cost that will be expended to refinance the outstanding indebtedness includes a reoffering premium of \$144,003.⁸ Caldwell District provided a cash flow analysis that indicates that the refinancing would save \$265,874⁹ over the life of the proposed loan, resulting in a positive net present value (NPV) cash flow of \$163,257.¹⁰

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

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

⁷ *Id.* Exhibit B, Sources and uses. Uses of Funds: \$25,650 (Total Underwriter's Discount) + \$32,940 (Costs of Issuances) + \$1,791,117 (Deposit to Current Refunding Fund) + \$4,296 (Rounding Amount) = \$1,854,003. Sources of Funds: \$1,710,000 (Par Amount of Bonds) + \$144,003 (Reoffering Premium) = \$1,854,003.

⁸ *Id.*

⁹ *Id.* Exhibit A-1, Savings, page 3.

¹⁰ *Id.* Exhibit F, Debt Service Comparison, page 18.

1. Caldwell District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that provide retail water service to 2,040 customers in Caldwell County, Kentucky.¹¹

2. KACOFC is a bond-issuing corporation established by parties to an Interlocal Cooperation Agreement (Interlocal Agreement). The Kentucky Association of Counties manages KACOFC, and Caldwell District is a party to the Interlocal Agreement.¹²

3. The proposed lease from KACOFC is for lawful objects within the corporate purposes of Caldwell 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.

IT IS THEREFORE ORDERED that:

1. Caldwell District is authorized to enter into a Lease Agreement with KACOFC to borrow no more than \$1,710,000 for the purpose of refunding the Outstanding Revenue Bonds, but only under such terms and conditions that will produce both positive gross savings and NPV savings.

2. Caldwell shall request prior Commission authorization if the actual principal amount of the lease is greater than the \$1,710,000 that is authorized herein.

3. Caldwell District shall, within 30 days of executing the Lease Agreement, file with the Commission amortization schedules and workpapers showing the actual

¹¹ 2017 Annual Report at 12 and 49.

¹² Application, page 1.

gross savings and NPV savings that result from the refinancing of the Outstanding Revenue Bonds.

4. Within 30 days of executing the proposed Lease Agreement, Caldwell District shall file a copy of the executed Lease Agreement and any documents referenced in the executed Lease Agreement that Caldwell District has not previously filed with the Commission.

5. The proceeds from the Lease agreement shall be used only for the lawful purposes specified in Caldwell District's application.

6. Any documents filed in the future pursuant to finding paragraphs 3 and 4 shall reference this case number and shall be retained in the post-case correspondence file.

7. This case is hereby closed and will be removed from the Commission's docket.

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

*Daniel Briscoe, Jr
Dinsmore & Shohl, LLP
101 South Fifth Street
Suite 2500
Louisville, KENTUCKY 40202

*Caldwell County Water District
118 West Market Street
Princeton, KY 42445

*Jimmy Littlefield
Caldwell County Water District
118 West Market Street
Princeton, KY 42445