

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF HARDIN)	
COUNTY WATER DISTRICT NO. 2 FOR)	
AUTHORIZATION TO ISSUE SECURITIES IN THE)	CASE NO.
APPROXIMATE AMOUNT OF \$2,320,000 FOR)	2021-00428
THE PURPOSE OF REFUNDING CERTAIN)	
OUTSTANDING REVENUE BONDS PURSUANT)	
TO KRS 278.300 AND 807 KAR 5:001)	

ORDER

On November 23, 2021, Hardin County Water District #2 (Hardin District #2), pursuant to KRS 278.300 and 807 KAR 5:001, filed an application seeking Commission authority to issue securities in the approximate principal amount of \$2,320,000. The proceeds of the issuance will be used for the purpose of refinancing outstanding water system revenue bonds.

Hardin District #2, a water district organized under KRS Chapter 74, owns and operates facilities that provide retail water service to 26,594 residential customers in Hardin, Hart, and Larue counties, Kentucky.¹ There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the written record.

LEGAL STANDARD

KRS 278.300 requires Commission authorization before a utility may “issue any securities or evidences of indebtedness, or assume any obligation or liability in respect

¹ *Annual Report of Hardin County Water District #2 to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2020* (2020 Annual Report) at 12 and 49.

to the securities or evidences of indebtedness of any other person.”² KRS 278.300(3) establishes the legal standard and clarifies the scope of Commission review, stating:

The Commission shall not approve any issue or assumption unless, after investigation of the purposes and uses of the proposed issue and proceeds thereof, or of the proposed assumption of obligation or liability, the commission finds that the issue or assumption is for some lawful object within the corporate purposes of the utility, is necessary or appropriate for or consistent with the proper performance by the utility of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose.

PROPOSED REFINANCING

On December 17, 2021, Hardin District #2 conducted a public, competitive sale of its 2022A Bonds.³ Pursuant to the favorable outcome of the competitive sale, Hardin District #2 proposed to issue securities in the amount of approximately \$2,310,400 (2022A Bonds).⁴ The proposed 2022A Bonds will have a nine-year term subject to interest rates of 1.450 percent per annum.⁵ Hardin District #2 proposed to use the proceeds from the issuance for the purpose of refinancing an outstanding revenue bond with an original principal amount of \$5,625,000 (2010A Bonds)⁶ dated July 28, 2010,⁷ bearing interest at a rate between 2.000 and 4.125 percent.⁸

² KRS 278.300(1)

³ Notice of Filing of Revised Exhibits at 1, paragraph 1.

⁴ Application at 3, paragraph 9b.

⁵ Notice of Filing of Revised Exhibits at 1, paragraph 2.

⁶ *Id.* at 3–4, paragraph 9b. The Series 2010A Bond was approved by the Commission in Case No. 2010-00256, *Application of Hardin County Water District No. 2 to Issue Securities in the Approximate Principal Amount of \$5,625,000 For the Purpose of Advance Refunding of Certain Outstanding Revenue Bonds of The District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC July 23, 2010).

⁷ Application, Exhibit 6.

⁸ *Id.*

Hardin District #2 estimated that it will expend \$3,517,793 to refund the 2010A Bonds.⁹ Hardin District #2's outstanding principal on its 2010A Bond being refunded is \$3,190,000.¹⁰ Hardin District #2 provided a Debt Service Comparison indicating that the refinancing would save \$1,056,359¹¹ over the life of the proposed Loan, resulting in a positive net present value (NPV) cash flow savings of \$985,892.¹²

DISCUSSION AND FINDINGS

Hardin District #2's 2020 annual water loss was 13.70 percent.¹³ The cost of this water loss at 13.70 percent is approximately \$428,752.¹⁴ Commission regulation 807 KAR 5:066(6)(3) states that for ratemaking purposes a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. The Commission commends Hardin District #2 on its low level of water loss and encourages Hardin District #2 to pursue reasonable actions to continue to prevent water loss in excess of 15 percent.

The Commission has reviewed the proposed refinancing and finds Hardin District #2's proposal to be reasonable due to the lower effective interest rate and cash flow

⁹ Notice of Filing of Revised Exhibits, Revised Exhibit 2, Sources and Uses, Uses of Funds: \$2,944,857.03 (Refunding Escrow Deposits) + \$507,421.55 (Debt Service Reserve Fund) +\$64,450.00 (Costs of Issuances) + \$15.17 (Additional Proceeds) = \$3,527,393.75.

¹⁰ Application at 3, paragraph 9b.

¹¹ Notice of Filing of Revised Exhibits, Revised Exhibit 3.

¹² *Id.*

¹³ 2020 Annual Report at 57.

¹⁴

	<u>Purchased Water</u>	<u>Purchased Power</u>	<u>Chemicals</u>	<u>Total</u>
2020 Reported Expenses from 2020 Annual Report	\$388,681	\$833,927	\$341,919	\$ 1,564,527
Times: Total Water Loss	<u>13.70%</u>	<u>13.70%</u>	<u>13.70%</u>	<u>13.70%</u>
Excess Purchased Water and Pumping Cost	<u>53,258</u>	<u>114,267</u>	<u>46,851</u>	<u>214,376</u>
Total				<u>\$ 428,752</u>

savings Hardin District #2 would realize over the period of the 2022A Bonds. However, if the new interest rate on the proposed refinancing is higher than the range of interest rates set forth in the application, Hardin District #2 should not proceed with the refinancing unless the NPV of the refinancing results in positive cash flow.

The Commission further finds that that Hardin District #2 satisfied the legal standards established in KRS 278.300 for the reasons that follow. First, the lawful object of Hardin District #2's purpose is to provide safe, adequate, and reliable water service to the public. The refinancing meets the lawful object of the utility's purposes because it will be used to refinance the 2010A Bonds previously approved by the Commission and is intended to strengthen the financial position of Hardin District #2 through substantial NPV debt service savings. Second, the financing is appropriate for the proper performance by the utility and will not impair its ability to perform that service because the 2022A Bonds are exclusively for the purposes of refinancing existing debt and achieving debt service NPV savings. No other aspects of Hardin District #2's operations or finances will change, except those related to the refinancing of existing debt as outlined in the application and this Order. Third, the financing is a reasonably appropriate option for Hardin District #2 to meet its statutory duty to provide safe, adequate, and reliable service because the current low interest rate environment will allow Hardin District #2 to achieve the NPV savings. For the reasons set forth above, the Commission further finds that Hardin District #2 should be authorized to issue the 2022A Bonds in order to refinance its existing 2010A Bonds.

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

1. The proposed securities are for lawful objects within the corporate purposes of Hardin District #2; are necessary and appropriate for and consistent with the proper performance by the utility of its service to the public; will not impair Hardin District #2's ability to perform that service; are reasonable, necessary, and appropriate for such purposes; and should be approved.

2. Hardin District #2 should execute its bond as security for the proposed securities in the manner described in its application.

3. The final amounts of the 2010A Bonds payoff, the price paid, fees incurred, its terms, interest rates, legal fees, and the new revenue bond will not be known until the refinancing transaction is finalized. Therefore, Hardin District #2 should provide the Commission an updated version of the application, Exhibit 3, reflecting the cash flow analysis of the new water revenue bond within ten days of finalizing the transaction. The Commission directs Hardin District #2 to the Commission's July 22, 2021 Order in Case No. 2020-00085¹⁵ regarding filings with the Commission.

4. Within ten days of the execution of the new security issuance, Hardin District #2 should file an electronic version of the 2022A Bonds documents.

5. The proceeds from the proposed 2022A Bonds should be used only for the lawful purposes set out in Hardin District #2's application.

IT IS THEREFORE ORDERED that:

1. Hardin District #2 is authorized to issue revenue bonds no more than the total amount to pay off the indebtedness proposed to be refinanced as identified in the

¹⁵ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

application on the condition that the final NPV of the savings, determined upon closing, generate positive cash flow. The bond maturity date and interest rate shall be in accordance with the issuance as described in Hardin District #2's application.

2. Hardin District #2 shall issue the 2022A Bonds documents as authorized herein.

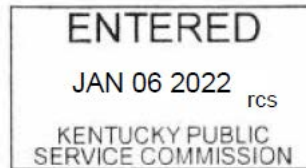
3. Hardin District #2 shall comply with all matters set out in finding paragraphs 3 through 5 as if they were individually so ordered.

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

5. This case is 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:


Linda C. Brundwell

Executive Director

Case No. 2021-00428

*Honorable Damon R Talley
Attorney at Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*Hardin County Water District #2
360 Ring Road
P. O. Box 970
Elizabethtown, KY 42702-0970

*Shaun Youravich
Operations Manager
Hardin County Water District #2
P. O. Box 970
Elizabethtown, KY 42702-0970