

**SKEETERS, BENNETT AND WILSON, PLC**

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December 16, 2004

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Beth O'Donnell  
Executive Director  
Public Service Commission  
211 Sower Blvd.  
Frankfort, Ky 40602

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DEC 17 2004

PUBLIC SERVICE  
COMMISSION

Re: Case No. 2004-00453, Filing Deficiencies

Dear Ms. O'Donnell:

In response to the Notice of Filing Deficiencies dated November 29, 2004, please take under advisement the following:

**1. Filing Deficiencies pursuant to 807 KAR 5:001, Section 11(1)(e):**

(See Exhibit A)

• Refinanced Bond:

- Par Value: \$3,200,000.

- Amount for which indebtedness was originally placed: \$3,200,000.

- Expense and application of proceeds: Expense of issuance was \$113,555; the proceeds were used to fund the Fort Knox Interconnection project.

- Date of obligations: The variable rate indebtedness which is being refinanced was originally issued March 1, 1998.

- Total amount being refunded: \$2,740,000; the variable rate indebtedness originally issued for the purpose of the construction of the Fort Knox Service Center was \$3,200,000;

- Interest rate: The present interest rate is approximately 1.5%;

- Payee: the payee is the Bank of New York, successor to Fifth Third Trust

**2. Filing deficiencies pursuant to 807 KAR 5:001, Section 11(2)(c):**

- USOA estimates (See Exhibit B)

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COMMISSION

**3. Filing deficiencies pursuant to 807 KAR 5:001, Section 6(5):**

•Bonds: Fixed rate

- Amount authorized: There is no specified amount of bonds authorized;
- Amount issued: The amount of fixed rate bonds issued by the District which are still obligations of the District total approximately \$4,300,000 (see Exhibit C);
- Name of Utility Who Issued: Hardin County Water District No. 1
- Description of Each Class Issued: All bonds issued by the District are tax exempt water revenue bonds;
- Date of Issue: The District currently has two outstanding fixed rate bonds issued in the following years: one issued in 1991; one issued in 1998;
- Date of Maturity: 1991 bond matures in 2005; 1998 bond matures in 2011;
- How Secured: All outstanding bond are secured by District revenue;
- Total long term interest paid in 2003: \$374,602;

● Bonds: Variable Rate:

- Amount authorized: There is no specified amount of bonds authorized;
- Amount issued: In addition to the variable rate bonds described in response to the first deficiency, the District also has an additional approximately 4.5 million in variable rate debt outstanding which the District does not wish to refinance;
- Name of Utility Who Issued: Hardin County Water District No. 1;
- Description of Each Class Issued: All variable rate bonds issued by the District are tax exempt water revenue bonds;
- Date of Issue: The District has one variable rate issuance, other than the one described in response to Deficiency No. 1. This issuance was placed in May 2002;
- Date of Maturity: Variable rate bonds mature weekly;
- How Secured: All outstanding bonds are secured by District revenue;

**4. Filing deficiencies pursuant to 807 KAR 5:001, Section 6(6):**

- Notes Outstanding

The Water District does not have any outstanding notes of any type.

**5. Filing deficiency pursuant to 807 KAR 5:001, Section 6(9):**

- Detailed income statement and balance sheet was filed with the Commission by the District on July 26, 2004. The income statement and balance sheets have not materially changed since filing. It would be unduly burdensome upon the District to produce a more current income statement and balance sheet. Accordingly, the District requests a deviation from the above regulatory provision. The District will file an audited income statement and balance sheet in the early part of 2005.

Finally, the District notes that the refunding of variable rate debt is not a fixed rate advanced refunded as the terms is traditionally used. The District proposes to refund approximately 2.74 million dollars in variable rate debt so as to lessen interest rate exposure in a market in which the District anticipates an increase in variable rates. When the District last obtained a rate increase, Case No.2001-211, the projected all end cost of money was 5%. Upon the completion of the proposed variable rate conversion, the all end cost of money is projected to be 2.65%. Moreover, after completion of the proposed conversion, the District will have significantly less interest rate risk exposure. Although, the conversion of the variable rate debt to fixed rate debt will result in an increase in the current all end cost of money, it is the District's business judgment that over a 10 to 15 year horizon the proposed refunding of the variable rate debt will result in a reduction in the cost of money to the District over a 10 to 15 year horizon.

In the bidding documents, the contractors are required to hold their bid prices for ninety days or until **January 19, 2005**. The District requests Commission approval of the financing plan and issuance of the Certificate of Public Need & Necessity no later than this date so that the District would not need to re-bid the project or accept higher prices from the contractor's, most likely increasing the cost of the project. The current trend in interest has also been upward, and the more time that passes before a bond sale can be completed the higher the interest rate and debt costs to the District's customers.

Sincerely,  
SKEETERS, BENNETT & WILSON PLC

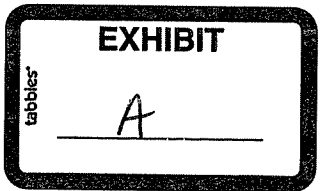


David T. Wilson II

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**SOURCES AND USES OF FUNDS**

Hardin County Water District No.1  
 FtKnox & Service Center Project-VRDB  
 20-Year Variable Rate Bonds  
 7-Day Variable Rate = 4.00%  
 Remaining Debt Service for Ft. Knox and Service Center

Dated Date                      03/01/1998  
 Delivery Date                    03/01/1998

Sources of Funds	Par Amount	Plus: Accrued	Less: Discount	Total
<b>Bond Proceeds:</b>				
Variable Rate Bonds	3,200,000.00	0.00	0.00	3,200,000.00

Uses of Funds	Par Amount	Plus: Accrued	Less: Discount	Total
<b>Project Fund Deposits:</b>				
Gross Funded	3,086,444.93			3,086,444.93

Cost of Issuance:				
Placement Agent (@ 75 bps)	24,000.00			24,000.00
Placement Agent Counsel (@ 50 bps)	16,000.00			16,000.00
General Counsel (@ 35 bps)	11,200.00			11,200.00
Direct Out-of-Pocket Expenses	1,600.00			1,600.00
Trustee	3,500.00			3,500.00
Bond Counsel	15,000.00			15,000.00
Bank Counsel	2,500.00			2,500.00
Printing	600.00			600.00
	<b>74,400.00</b>			<b>74,400.00</b>

**SOURCES AND USES OF FUNDS**

**Hardin County Water District No.1**  
**FtKnox & Service Center Project-VRDB**  
**20-Year Variable Rate Bonds**  
**7-Day Variable Rate = 4.00%**  
**Remaining Debt Service for Ft. Knox and Service Center**

Uses of Funds	Par Amount	Plus: Accrued	Less: Discount	Total
Other Delivery Date Expenses:				
Letter of Credit (@ 90 bps)	29,155.07			29,155.07
LOC Origination	10,000.00			10,000.00
	<u>39,155.07</u>			<u>39,155.07</u>
	<b>3,200,000.00</b>	<b>0.00</b>	<b>0.00</b>	<b>3,200,000.00</b>

**BOND DEBT SERVICE**

Hardin County Water District No.1  
 FtKnox & Service Center Project-VRDB  
 20-Year Variable Rate Bonds  
 7-Day Variable Rate = 4.00%  
 Remaining Debt Service for Ft. Knox and Service Center

Dated Date                    03/01/1998  
 Delivery Date                03/01/1998

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service	Bond Balance	Total Bond Value
03/01/2005	50,000	4.000%	53,357.82	103,357.82	216,591.80	2,640,000	2,640,000
09/01/2005	60,000	4.000%	53,233.98	113,233.98	2,580,000	2,580,000	2,580,000
03/01/2006	55,000	4.000%	51,175.88	106,175.88	2,525,000	2,525,000	2,525,000
09/01/2006	65,000	4.000%	50,915.06	115,915.06	2,22,090.94	2,460,000	2,460,000
03/01/2007	65,000	4.000%	48,795.61	113,795.61	2,27,089.31	2,395,000	2,395,000
09/01/2007	65,000	4.000%	48,293.70	113,293.70	2,250,000	2,330,000	2,330,000
03/01/2008	80,000	4.000%	46,472.33	126,472.33	2,160,000	2,250,000	2,250,000
09/01/2008	90,000	4.000%	45,369.88	135,369.88	2,075,000	2,160,000	2,160,000
03/01/2009	85,000	4.000%	42,844.93	127,844.93	2,075,000	2,075,000	2,075,000
09/01/2009	95,000	4.000%	41,841.12	136,841.12	2,075,000	1,980,000	1,980,000
03/01/2010	100,000	4.000%	39,274.54	139,274.54	1,880,000	1,880,000	1,880,000
09/01/2010	90,000	4.000%	37,909.04	127,909.04	1,790,000	1,790,000	1,790,000
03/01/2011	90,000	4.000%	35,505.76	125,505.76	1,700,000	1,700,000	1,700,000
09/01/2011	100,000	4.000%	34,279.44	134,279.44	1,600,000	1,600,000	1,600,000
03/01/2012	100,000	4.000%	31,912.33	131,912.33	1,500,000	1,500,000	1,500,000
09/01/2012	100,000	4.000%	30,246.58	130,246.58	1,400,000	1,400,000	1,400,000
03/01/2013	100,000	4.000%	27,769.85	127,769.85	1,300,000	1,300,000	1,300,000
09/01/2013	110,000	4.000%	26,213.70	136,213.70	1,190,000	1,190,000	1,190,000
03/01/2014	110,000	4.000%	23,604.39	133,604.39	1,080,000	1,080,000	1,080,000
09/01/2014	110,000	4.000%	21,777.52	131,777.52	970,000	970,000	970,000
03/01/2015	120,000	4.000%	19,240.54	139,240.54	850,000	850,000	850,000
09/01/2015	110,000	4.000%	17,139.72	127,139.72	740,000	740,000	740,000
03/01/2016	120,000	4.000%	14,759.45	134,759.45	620,000	620,000	620,000
09/01/2016	120,000	4.000%	12,501.92	132,501.92	500,000	500,000	500,000

**BOND DEBT SERVICE**

Hardin County Water District No.1  
 FtKnox & Service Center Project-YRDB  
 20-Year Variable Rate Bonds  
 7-Day Variable Rate = 4.00%  
 Remaining Debt Service for Ft. Knox and Service Center

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service	Bond Balance	Total Bond Value
03/01/2017	125,000	4.000%	9,917.82	134,917.82		375,000	375,000
09/01/2017	120,000	4.000%	7,561.64	127,561.64	262,479.46	255,000	255,000
03/01/2018	125,000	4.000%	5,058.09	130,058.09		130,000	130,000
09/01/2018	130,000	4.000%	2,621.36	132,621.36	262,679.45		
	<b>2,690,000</b>		<b>879,594.00</b>	<b>3,569,594.00</b>	<b>3,569,594.00</b>		



# Hardin County Water District No. 1

New Salem Church Road County Expansion Project

Estimates of USoA Account Changes (Listing impacted accounts only)

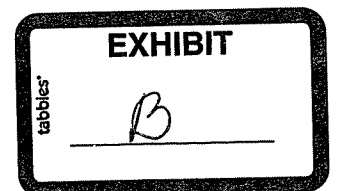
Water Utility Plant Accounts

Prepared By Mr. Jim Bruce, General Manager

Acct (a)	Account Name (b)	Bid Amounts Estimate	Conting + Insp / Proj Mgmt	Total Account Adjustment	Ref. Note
303	Land & Land Rights	\$23,142	\$0	\$23,142	1
311	Pumping Equipment	\$176,650	\$25,684	\$202,334	
330	Distribution Reservoirs & Standpipes	\$596,516	\$86,731	\$683,247	2
331	Transmission & Distribution Mains	\$2,865,576	\$416,641	\$3,282,217	3
335	Hydrants	\$184,275	\$26,793	\$211,068	
346	Communication Equipment	\$69,819	\$10,151	\$79,970	4
		\$3,915,978	\$566,000	\$4,481,978	5

Column e. Adjusting Reference Notes;

1. Includes \$21,034 for purchase of 48 easements and acquisition, legal engineering costs
2. Includes \$62,025 for 3 pressure zone control valves to fill tank
3. Excludes hydrants, tanks and control valves
4. Enhancements, additions to existing SCADA system
5. Contingency = \$275,000, Const Mgmt and Inspection = \$291,000



**HCWD#1 Debt Service Summary**  
**All Fixed Rate Issues - Principal & Interest**

YEAR	1989P	1989I	1991P	1991I	1992P	1992I	F1998P	F1998I	Annual Principal	Annual Interest	Annual TOTAL
1999	\$55,000	\$12,255	\$210,000	\$152,665	\$70,000	\$33,055	\$100,000	\$118,933	\$435,000	\$316,908	\$751,908
2000	\$60,000	\$8,460	\$310,000	\$139,435	\$75,000	\$29,205	\$50,000	\$155,228	\$495,000	\$332,328	\$827,328
2001	\$60,000	\$4,260	\$330,000	\$119,595	\$90,000	\$24,930	\$55,000	\$153,428	\$535,000	\$302,213	\$837,213
2002	\$0	\$0	\$345,000	\$98,145	\$95,000	\$19,620	\$115,000	\$151,448	\$555,000	\$269,213	\$824,213
2003	\$0	\$0	\$350,000	\$75,375	\$110,000	\$13,920	\$120,000	\$147,308	\$580,000	\$236,603	\$816,603
2004	\$0	\$0	\$380,000	\$51,925	\$120,000	\$7,320	\$235,000	\$142,988	\$735,000	\$202,233	\$937,233
2005	\$0	\$0	\$395,000	\$26,465	\$0	\$0	\$315,000	\$133,588	\$710,000	\$160,053	\$870,053
2006	\$0	\$0	\$0	\$0	\$0	\$0	\$415,000	\$120,988	\$415,000	\$120,988	\$535,988
2007	\$0	\$0	\$0	\$0	\$0	\$0	\$430,000	\$104,388	\$430,000	\$104,388	\$534,388
2008	\$0	\$0	\$0	\$0	\$0	\$0	\$450,000	\$87,188	\$450,000	\$87,188	\$537,188
2009	\$0	\$0	\$0	\$0	\$0	\$0	\$470,000	\$69,188	\$470,000	\$69,188	\$539,188
2010	\$0	\$0	\$0	\$0	\$0	\$0	\$380,000	\$49,800	\$380,000	\$49,800	\$429,800
2011	\$0	\$0	\$0	\$0	\$0	\$0	\$400,000	\$34,030	\$400,000	\$34,030	\$434,030
2012	\$0	\$0	\$0	\$0	\$0	\$0	\$415,000	\$17,430	\$415,000	\$17,430	\$432,430
2013	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2014	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2015	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2016	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2017	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2018	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	\$175,000	\$24,975	\$2,320,000	\$663,605	\$560,000	\$128,050	\$3,950,000	\$1,485,928	\$7,005,000	\$2,302,558	\$7,664,063
									Average Annual DS		\$638,671.88

