

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE)	
MCCREARY COUNTY WATER DISTRICT TO)	
ISSUE SECURITIES IN THE APPROXIMATE)	
PRINCIPAL AMOUNT OF \$1,702,000 FOR)	
THE PURPOSE OF REFUNDING CERTAIN)	CASE NO.
OUTSTANDING OBLIGATIONS OF THE)	2020-00151
DISTRICT AND REFINANCING OF A SHORT)	
TERM OBLIGATION PURSUANT TO THE)	
PROVISIONS OF KRS 278.300 AND 807 KAR)	
5:001)	

ORDER

On May 8, 2020, McCreary County Water District (McCreary District), filed an application (Application) seeking Commission authority to enter into a loan agreement (Loan) with Kentucky Rural Water Finance Corporation (KRWFC) to borrow approximately \$1,702,000 (subject to adjustment of up to 10 percent). The proceeds of the Loan will be used to refinance four outstanding debt obligations to McCreary District, to refinance a short-term loan with United Cumberland Bank (Bank Loan), and to pay the costs of issuance of the Loan. There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

McCreary District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that provide retail water service to 6,134 customers in McCreary County, Kentucky.¹

¹ *Annual Report of McCreary 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 12 and 49.

The Commission also notes that its records reflect that McCreary District has not sought a general adjustment in rates by any other means than through financing approval or in conjunction with an application for a Certificate of Public Convenience and Necessity. The practical result of such policy is that McCreary District has managed to avoid Commission review of its financial records and operational structure for more than 40 years. While McCreary District has increased its rates as part of financing cases through the United States Department of Agriculture Rural Development (RD), the Commission's review of records in a RD financing case is limited and very different from the comprehensive review of a utility's total financial stability and operational viability that takes place in a traditional rate adjustment case or an alternative rate adjustment. The Commission recently noted that utilities intentionally use this practice to avoid a review of its financial records.²

McCreary District proposes to execute the Loan with KRWFC to borrow \$1,702,000.³ The proposed lease will have a 30-year term subject to interest rates that will vary from 3.2 percent to 5.2 percent per annum.⁴ McCreary District proposes to use some of the proceeds from the KRWFC Loan to fully refund the Waterworks Revenue Bonds of the District that consist of Waterworks Revenue Bonds, Series 2005 Sewer Bonds with an original principal amount of \$290,000; Waterworks Revenue Bonds, Series 2005 Water Bonds with an original principal amount of \$750,000; Waterworks Revenue

² See generally, Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC. Nov. 22, 2019).

³ Application at 5.

⁴ *Id.*, Exhibit A-1, Exhibit A-2.

Bonds, Series 2008 Cumberland Falls Bonds with an original principal amount of \$150,000; and Waterworks Revenue Bonds, Series 2008 New Liberty Bonds with an original principal amount of \$325,000. (Prior Bonds).⁵ In addition, McCreary District proposes using some proceeds to refinance the Bank Loan with an original principal amount of \$495,000, which matures on December 28, 2020.⁶

McCreary District estimates that it will expend \$1,302,610.6 to refund the Prior Bonds⁷ and \$517,867.35 to refund the Bank Loan.⁸ The estimated expended cost to refinance the outstanding indebtedness includes reoffering premiums of \$49,870.70 and \$17,867.35.⁹ McCreary District provided a Debt Service Comparison indicating that the refinancing would save \$154,044.74¹⁰ over the life of the proposed loan, resulting in a positive net present value (NPV) cash-flow savings of \$139,213.66.¹¹

The Commission has reviewed the proposed refinancing and finds McCreary District's proposal to be reasonable due to the lower effective interest rate and cash-flow savings McCreary District would realize over the period of the loan. Although, if the new interest rate on the proposed refinancing is higher than the range of interest rates set

⁵ Application at 5.

⁶ *Id.*

⁷ *Id.*, Exhibit B-1, Sources and uses. Uses of Funds: \$18,300 (Total Underwriter's Discount) + \$22,020 (Costs of Issuances) + \$1,261,467.84 (Deposit to Current Refunding Fund) + \$822.77 (Rounding Amount) = \$1,302,610.61.

⁸ *Id.*, Exhibit B-2, Sources and uses. Uses of Funds: \$6,250 (Total Underwriter's Discount) + \$20,000 (Costs of Issuances) + \$490,000 (Deposit to Project Construction Fund) + \$1,617.35 (Rounding Amount) = \$517,867.35.

⁹ *Id.*, Exhibit B-1, Exhibit B-2.

¹⁰ Application, Exhibit C.

¹¹ *Id.*

forth in the Application, McCreary District should not proceed with the refinancing unless the NPV of the refinancing results in positive cash flow. The Commission commends McCreary District for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its customers. However, the Commission is concerned with McCreary District's prolonged absence from the Commission's review of its asset management through an application for adjustment of its rates. KRS 278.300(4) states that the Commission may grant or deny an application for approval of financing in whole or in part, or upon such terms and conditions as deemed necessary or appropriate. Therefore, the Commission finds that McCreary District's proposal should be granted with the condition that it file an application for adjustment of its base rates through an alternative rate filing within one year of the date of filing of this Order.

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

1. The proposed loan from KRWFC is for lawful objects within the corporate purposes of McCreary 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. McCreary District should execute its note as security for the proposed loan in the manner described in its Application.

3. The Commission directs McCreary District to the Commission's March 16, 2020 and March 24, 2020 Orders in Case No. 2020-00085¹² regarding filings with the Commission. The Commission expects the original documents to be filed with the Commission within 30 days of the lifting of the current state of emergency.

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

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

6. The proceeds from the proposed loan should be used only for the lawful purposes set out in McCreary District's Application.

7. The terms and conditions of the new KRWFC loan should be consistent with the KRWFC assistance program as described in McCreary District's Application.

8. McCreary District should file for an adjustment in base rates or file for an alternative rate filing within one year of the date of filing of this Order to ensure that its rates are sufficient.

¹² Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020), Order at 5–6. Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 24, 2020), Order at 1–3.

IT IS THEREFORE ORDERED that:

1. McCreary District is authorized to enter into the Lease with KRWFC to borrow no more than the total amount to pay off the indebtedness proposed to be refinanced as identified in the application on the condition that the final NPV of the savings, determined upon closing, generate positive cash flow. The loan maturity date and interest rate shall be in accordance with the KRWFC assistance program as described in McCreary District's Application.

2. McCreary District shall execute the KRWFC loan documents as authorized herein.

3. McCreary District shall comply with all matters set out in finding paragraphs 3 through 7 as if they were individually so ordered.

4. Any documents filed in the future pursuant to finding paragraphs 4 and 5 shall reference this case number and shall be retained in the post-case correspondence file.

5. McCreary District shall file for an adjustment in base rates or file for an alternative rate filing within one year of the date of filing of this Order.

6. This case is closed and 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

ENTERED
JUN 26 2020 rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2020-00151

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