

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KNOTT)	
COUNTY WATER & SEWER DISTRICT FOR)	CASE NO.
APPROVAL OF FINANCING PURSUANT TO KRS)	2020-00384
278.300)	

ORDER

On December 15, 2020, Knott County Water and Sewer District (Knott District), filed an application seeking Commission authority to enter into a loan agreement (Hindman Loan) with the Bank of Hindman to borrow approximately \$325,000. The proceeds of which will be used to refinance three outstanding debt obligations to Knott District and to pay the costs of issuance of the Hindman Loan. There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

Knott District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that provide retail water service to 3,055 customers in Knott County, Kentucky.¹

Knott District proposes to execute the Hindman Loan to borrow \$325,000.² The proposed lease will have a 60-month term subject to interest rates at 2.75 per annum.³

¹ *Annual Report of Knott County Water and Sewer District to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2019* (2019 Annual Report) at 12 and 49.

² Application at 3, paragraph 11.

³ *Id.*, Exhibit E.

Knott District proposes to use the proceeds from the Hindman Loan to refinance three outstanding loans. One loan from the Kentucky Infrastructure Authority (KIA) with an original principal amount of \$547,000, also two Rural Utilities Services (RUS) loans; one entered into in 2003 with an original principal amount of \$185,000, another entered into in 2007, with an original principal amount of \$100,000.⁴

Knott District estimates that it will expend \$310,858.50 to refund the prior loans.⁵ Knott District provided a debt service comparison indicating that the refinancing would save \$136,175⁶ over the life of the proposed loan, resulting in a positive net present value (NPV) savings of \$52,741.⁷

The Commission has reviewed the proposed refinancing and finds Knott District's proposal to be reasonable due to the lower effective interest rate and cash flow savings Knott 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 forth in the application, Knott District should not proceed with the refinancing unless the NPV of the refinancing results in positive cash flow. The Commission commends Knott District for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its customers.

⁴ Application at 2, paragraph 4.

⁵ Supplemental Responses to Items 3 and 5 of Commission Staff's Request for Information. Item 3, Sources & Uses, Uses of Funds: \$88,027.25 (KIA) + \$141,821.50 (USDA RD-93-05) + \$79,809.75 (USDA RD-91-11) + \$1,200 (Closing Costs) = \$310,858.50.

⁶ Revised Attachment to Item 5 of Staffs Request for information (filed Jan. 28, 2021), item 5 at page 2 of 4.

⁷ *Id.*

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

1. The proposed Hindman Loan is for lawful objects within the corporate purposes of Knott 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. Knott District should execute its note as security for the proposed loan in the manner described in its application.

3. The Commission directs Knott District to the Commission's March 16, 2020 and March 24, 2020 Orders in Case No. 2020-00085⁸ 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 legal fees and the Hindman Loan will not be known until the refinancing transaction is finalized. Therefore, Knott District should provide the Commission an updated version the debt service schedule, reflecting the cash flow analysis of the new Hindman Loan within ten days of finalizing the transaction.

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

⁸ 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.

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

7. The terms and conditions of the Hindman Loan should be consistent with the loan proposal as described in Knott District's application.⁹

IT IS THEREFORE ORDERED that:

1. Knott District is authorized to enter into the Hindman Loan with the Bank of Hindman 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 Hindman assistance program as described in Knott District's application.

2. Knott District shall execute the Hindman Loan documents as authorized herein.

3. Knott 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. 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.

⁹ Application, Exhibit E.

By the Commission

ENTERED
FEB 16 2021
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KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



For
Executive Director

Case No. 2020-00384

*L Allyson Honaker
Goss Samford, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KENTUCKY 40504

*Knott County Water & Sewer District
7777 Big Branch Road
Vicco, KY 41773

*Kyle Smith
Knott County Water & Sewer District
7777 Big Branch Road
Vicco, KY 41773

*Mark David Goss
Goss Samford, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KENTUCKY 40504