

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MCCREARY	)	
COUNTY WATER DISTRICT FOR APPROVAL TO	)	
ISSUE OF SECURITIES IN THE APPROXIMATE	)	
PRINCIPAL AMOUNT OF \$3,450,000 FOR THE	)	CASE NO.
PURPOSE OF REFINANCING CERTAIN	)	2022-00009
OUTSTANDING OBLIGATIONS OF THE	)	
DISTRICT PURSUANT TO THE PROVISIONS OF	)	
KRS 278.300 AND 807 KAR 5:001	)	

ORDER

On January 17, 2022, McCreary County Water District (McCreary District) filed an application seeking Commission approval to refinance one outstanding debt to the Kentucky Rural Water Finance Corporation (KRWFC) pursuant to KRS 278.300 and 807 KAR 5:001. McCreary District proposed to borrow funds from KRWFC of approximately \$3,450,000 for the refinancing via an Assistance Agreement (KRWFC Loan) with KRWFC. McCreary District responded to one request for information. There are no intervenors in this case, and the matter now stands before the Commission for a decision based upon the evidentiary record.

LEGAL STANDARD

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

the securities or evidences of indebtedness of any other person.”<sup>1</sup> The legal standard contained in KRS 278.300(3) establishes the purview 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 the 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

McCreary District proposed to borrow funds pursuant to the KRWFC Loan in the approximate amount of \$3,450,000 (subject to adjustment of up to 10 percent) for the purposes of refinancing existing outstanding indebtedness as follows<sup>2</sup>:

<u>Loan/Bond Series</u>	<u>Original Amount</u>	<u>Interest</u>	<u>Case Number Approved</u>
Public Projects Refunding Revenue Bonds, Series 2012D	\$4,800,000	3.3-4.2%	2012-00172 <sup>3</sup>

The refinancing is comprised of a single loan agreement, with an approximate 19-year term, funded by bonds that will be issued at interest rates that will vary between 2.25 percent and 3.00 percent per annum.<sup>4</sup> Under current interest rates, the refinancing

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<sup>1</sup> KRS 278.300(1).

<sup>2</sup> Application at 2–3, paragraph 5.

<sup>3</sup> Case No. 2012-00172, *Application of McCreary County Water District to Issue Securities in the Approximate Principal Amount of \$4,790,000 For the Purpose of Refunding Certain Outstanding Revenue Bonds of the District Pursuant to the Provisions Of KRS 278.300 And 807 Kar 5:001* (Ky. PSC May 25, 2012).

<sup>4</sup> Application, Exhibit A.

is estimated to yield net present value (NPV) savings to the district of approximately \$388,529.<sup>5</sup> McCreary District stated that the final principal amount of the KRWFC Loan will be based upon interest rates at the date of sale.<sup>6</sup> However, McCreary District clarified that no refinancing will occur if interest rates shift so that NPV debt service savings can no longer be achieved.<sup>7</sup> McCreary District stated that the KRWFC Loan would provide the funds necessary to refinance the Prior Loans and other district bonds and to pay the fees and expenses incident to the issuance of the KRWFC Loan.<sup>8</sup>

### DISCUSSION AND FINDINGS

McCreary District is a water utility providing service to approximately 6,259 customers in McCreary County, Kentucky.<sup>9</sup> Regarding McCreary District, the Commission notes that McCreary District currently has an Adjusted Rate Filing case ongoing with the Commission for its water and sewer division. Due to the current nature of McCreary District's rate case, the effects of any potential rate increase are not fully quantifiable, and the past annual reports on file with the Commission would not provide a current and accurate insight into the financial well-being of McCreary District.<sup>10</sup> For this reason, the Commission directs McCreary District to file for a general adjustment in base rates or an Alternative Rate Filing (ARF) within three years of the issuance of the final

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<sup>5</sup> Application at 3, paragraph 9; *see also* Application, Exhibit C.

<sup>6</sup> *Id.* at 3–4, paragraph 10.

<sup>7</sup> *Id.*

<sup>8</sup> *Id.* at 3, paragraph 7.

<sup>9</sup> *Annual Report of McCreary District to the Public Service Commission (Annual Report) for the Year Ending December 31, 2020* at 12 and 49.

<sup>10</sup> The Commission notes that the refinancing is expected to provide NPV savings to McCreary District, which will in turn provide a cushion to stem future rate increase needs.

Order in Case No. 2021-00300<sup>11</sup> and Case No. 2021-00301<sup>12</sup> for its sewer and water divisions, respectively, as to provide time to see the effects of the latest rate increase. In the alternative, McCreary District may file a formal motion with a detailed analysis of its rates and revenues and a statement of the reasons why a rate case is not necessary. The motion should also discuss the effectiveness of its water loss control plan. The Commission further directs McCreary District to review its finances on an annual basis and ensure that depreciation accounts are being fully funded. Should the need arise, McCreary District should file for a rate case or ARF before the deadline.

McCreary District's 2020 annual water loss was 13.53 percent.<sup>13</sup> The cost of McCreary District's water loss at 13.53 percent is approximately \$57,068.<sup>14</sup> 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. Therefore, no reduction of McCreary District's

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<sup>11</sup> Case No. 2021-00300, *Electronic Application of McCreary County Water District for an Alternative Rate Adjustment* (Ky. PSC Sept. 27, 2021).

<sup>12</sup> Case No. 2021-00301, *Electronic Application of McCreary County Water District for an Alternative Rate Adjustment* (Ky. PSC Sept. 27, 2021).

<sup>13</sup> 2020 Annual Report at 57.

<sup>14</sup>

	Purchased Power	Purchased Chemicals
2020 Reported Expenses	\$ 289,207	\$ 132,583
Total Water Loss	<u>13.53%</u>	<u>13.53%</u>
Excess Cost	<u>39,130</u>	<u>17,938</u>
Total	\$	57,068

expenses would be made for unallowable unaccounted for water loss. McCreary District's five-year water loss is as follows:<sup>15</sup>

Year	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Water Loss (%)	14.56	11.69	14.31	14.04	13.53

McCreary District provided a debt service schedule comparison that indicated the refinancing would save \$492,675 over the life of the KRWFC Loan, resulting in a positive NPV cash flow savings of \$388.529.<sup>16</sup> However, in the event that the new interest rate on the proposed refinancing is higher than the range of interest rates set forth in the application, the Commission finds that McCreary District should not proceed with the refinancing unless the NPV of the refinancing results in positive cash flow.

The Commission further finds that McCreary District satisfied the legal standards established in KRS 278.300 to refinance the Prior Loans and district bonds, previously approved by the Commission, for the following reasons. First, the lawful object of McCreary District'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 is intended to strengthen the financial position of McCreary District through substantial NPV debt service savings. Second, the refinancing is appropriate for the proper performance by the utility and will not impair its ability to perform that service because the KRWFC Loan is exclusively for the purposes of refinancing existing debt and achieving debt service NPV savings. No other aspects of McCreary District's operations or finances will

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<sup>15</sup> 2020 Annual Report of McCreary District at 57; 2019 Annual Report of McCreary District at 57; 2018 Annual Report of McCreary District at 57; 2017 Annual Report of McCreary District at 56; and 2016 Annual Report at 56.

<sup>16</sup> Application, Exhibit C.

change, except those related to the refinancing of existing debt as outlined in the application and this Order. Third, the refinancing is a reasonably appropriate option for McCreary District to meet its statutory duty to provide safe, adequate, and reliable service because the current low interest rate environment will allow McCreary District to achieve such savings.

Lastly, the Commission finds McCreary District's application and proposal to be reasonable due to the lower effective interest rate and cash flow savings realized over the period of the KRWFC Loan, and McCreary District should be authorized to enter into the KRWFC Loan in order to refinance its existing debt obligations outlined in the application.

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

1. The KRWFC Loan 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 is approved.

2. McCreary District shall secure the KRWFC Loan in the manner described in its application.

3. The final amount of the KRWFC Loan, legal expenses, and interest rates will not be known until the refinancing transaction is finalized. Therefore, McCreary District shall provide the Commission an updated version of the debt service schedule in

Exhibit A, reflecting the cash flow analysis of the proposed KRWFC Loan within ten days of finalizing the transaction.

4. Within ten days of the execution of the KRWFC Loan documents, McCreary District shall file with the Commission an electronic version of the loan documents.

5. The proceeds from the KRWFC Loan shall be used only for the lawful purposes set out in McCreary District's application.

6. The terms and conditions of the KRWFC Loan shall be consistent with the loan proposal as described in McCreary District's application.

IT IS THEREFORE ORDERED that:

1. McCreary District is authorized to enter into the KRWFC Loan to borrow no more than the amount proposed in the application needed to pay off and refinance the RD indebtedness on the condition that the final NPV of the savings, determined upon closing, generate positive cash flow. The loan amount, maturity date, and interest rate shall be in accordance with the KRWFC Loan 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 the findings paragraphs 2 through 6 above as if they were individually ordered.

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

5. McCreary District shall file an application for an adjustment in base rates for its water and sewer divisions within 3 years of the issuance of the final orders in Case No. 2021-00300 and Case No. 2021-00301, to ensure that its rates are sufficient, or in the alternative, file a formal motion with a detailed analysis of its rates and revenues and a statement explaining the reasons why no modifications are necessary.

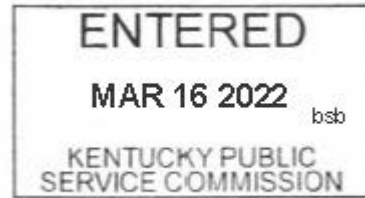
6. This case is closed and removed from the Commission's docket.

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.

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By the Commission



ATTEST:

  
Executive Director

Case No. 2022-00009

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