

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF HARDIN	)	
COUNTY WATER DISTRICT NO. 1 FOR	)	CASE NO.
APPROVAL OF INDEBTEDNESS PURSUANT TO	)	2023-00144
KRS 278.300(1) AND KRS 278.300(8) AND	)	
RELATED SECTIONS AUTHORIZING	)	

ORDER

On May 4, 2023, Hardin County Water District No. 1 (Hardin District No. 1) filed an application seeking Commission approval of a perpetual line of credit not to exceed \$10,000,000 at any one time from The Cecilian Bank (Cecilian Bank). In support of its application Hardin District No. 1 stated that the advances from the line of credit will allow Hardin District No. 1 to obtain funds for temporary shortfalls of cash while requests for permanent financing are pending.<sup>1</sup> Hardin District No. 1 proposed a 24-month unsecured revolving line of credit with interest to be paid quarterly, and an interest rate that will float daily at the Wall Street Prime rate, which is currently at 8 percent.<sup>2</sup>

BACKGROUND

Hardin District No. 1 provides retail water service to approximately 10,756 customers in Hardin County, Kentucky and provides wholesale water service to Meade

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<sup>1</sup> Application at 4.

<sup>2</sup> Application, Exhibit B.

County Water District and three small cities in Kentucky.<sup>3</sup> In addition, Hardin District No. 1 provides wastewater service to approximately 9,349 customers in Hardin County, Kentucky, and owns and operates the water treatment, water distribution, wastewater and storm water drainage systems serving the Fort Knox Military Installation.<sup>4</sup> Hardin District No.1's water service generated a total operating service revenue of \$10,349,071 and an operating income of \$1,015,236 in 2022. Hardin District No.1's water service had a net position of \$73,352,240 in 2022.<sup>5</sup>

Hardin District No. 1 stated that it currently has a line of credit with Cecilian Bank that has a balance of \$2,603,617.29 as of May 1, 2023.<sup>6</sup> In its application, Hardin District No. 1 explained that it has utilized the line of credit as a source of interim financing following the Commission's approval of certain construction projects in Case No. 2017-00144<sup>7</sup> and Case No. 2022-00337.<sup>8</sup> Additionally, Hardin District No. 1 has filed an application in Case No. 2023-00143 seeking the Commission's approval to acquire the

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<sup>3</sup> Application at 2, Hardin District No. 1 provided wholesale water service to Vine grove, Hardinsburg and West Point. See Case No. 2023-00143, *Electronic Application of Hardin County Water District No. 1 for Transfer and Acquisition* (filed May 5, 2023), Application.

<sup>4</sup> Application at 2-3

<sup>5</sup> Hardin District No. 1's 2022 Audit Report can be found on the Commission's Website at: [https://psc.ky.gov/Utility\\_Financial\\_Reports\\_Net/uploaded/support/SD\\_22500\\_2022\\_1.pdf](https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_22500_2022_1.pdf)

<sup>6</sup> Application at 3.

<sup>7</sup> Case No. 2017-00144, *Application of Hardin County Water District No. 1 for: (1) A Certificate of Public Convenience and Necessity Authorizing Construction of Additions and Improvements to its Water System; (2) Approval of Revised Water Service Rates and Charges; and (3) Authorizing The Issuance of Certain Securities Pursuant to the Provisions of KRS 278.023 and 807 KAR 5:06* (Ky. PSC Apr. 17, 2017).

<sup>8</sup> Case No. 2022-00337, *Application of Hardin County Water District No. 1 for a Certificate of Public Convenience and Necessity Authorizing the Construction of Additions and Improvements to its Water System, Approval of Revised Water Service Rates and Charges, and Authorizing The Issuance of Certain Securities Pursuant to the Provisions of KRS 278.023 and 807 KAR 5:069* (Ky. PSC Dec. 9, 2022). Application at 3.

water and wastewater systems for the city of West Point, Kentucky.<sup>9</sup> On May 31, 2023, Hardin District No. 1 tendered an amended application in that proceeding and stated that it “lacked the financial wherewithal to complete the acquisition until and unless” the Commission approves the line of credit described in this proceeding.<sup>10</sup>

Although the Commission is making no finding in this proceeding regarding Hardin District No. 1’s proposed acquisition of a small municipal water and wastewater system, the Commission takes notice of the finding of the Kentucky General Assembly articulated in KRS 74.361. The legislature has found that a reduction of the number of operating water districts in Kentucky is in the public interest and will tend to eliminate wasteful duplication of costs and efforts, and therefore merger of water districts should be favored whenever possible.<sup>11</sup> While Hardin District No. 1’s proposal involves a small municipal system, and not another water district, given the legislature’s stated public policy concerning reducing the number of operating water utilities, Hardin District No. 1’s exploring the feasibility of acquiring a small municipal system is a logical act,<sup>12</sup> and preparing for this proposed acquisition by ensuring it has access to needed interim financing may be an appropriate step for Hardin District No. 1 to take under the circumstances.

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<sup>9</sup> Case No. 2023-00143, May 5, 2023 Application.

<sup>10</sup> Case No. 2023-00143, May 31, 2023 Amended Joint Application, paragraph 4.

<sup>11</sup> KRS 74.361(1).

<sup>12</sup> Case No. 2023-00143, May 5, 2023 Application, paragraph 10. The West Point system has 400 customers.

## LEGAL STANDARD

The Commission evaluates requests for financing using the criteria found in KRS 278.300(3), which are that the issue or assumption be for some lawful object within the corporate purpose of the utility; is necessary and appropriate for or consistent with the proper performance by the utility of its service to the public; will not impair its ability to perform that service; and is reasonably necessary and appropriate for such a purpose.

## DISCUSSION AND FINDINGS

The Commission finds that Hardin District No.1 meets the requirements of KRS 278.300(3) for the following reasons. First, Hardin District No. 1's purpose is to provide adequate, efficient and reasonable water service to the public.<sup>13</sup> The line of credit meets the lawful object of the utility's purpose because the funds procured through this line of credit are intended to pay for expenses related to improving Hardin District No.1's system while it awaits disbursement of grants and other funds that are generally reserved for expenses related to system improvement. This financing mechanism allows Hardin District No. 1 to pay expenses as they become due and avoid any penalty fees associated with waiting for disbursement of grant funds. The line of credit allows Hardin District No. 1 to move forward with construction and improvement projects in an efficient manner and is therefore being used for a lawful object within the corporate purpose providing water service to the public.

Second, the line of credit is necessary and appropriate for the proper performance of Hardin District No. 1's service to the public because the interim financing provided by these funds will allow Hardin District No. 1 to continue meeting its statutory requirement

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<sup>13</sup> KRS 278.030(2).

under KRS 278.030(2) to provide adequate, efficient and reasonable water service by making improvements in its system utilizing low-cost financing. Access to interim financing is often a requirement for water system improvement projects financed by lower-interest federal financing.<sup>14</sup> Since interim financing is required by the terms of low-cost federal financing available to Hardin District No. 1, this line of credit is necessary and appropriate for Hardin District No. 1's service to the public.

Use of this proposed increased line of credit will not impair Hardin District No. 1's ability to provide water service to the public because Hardin District No. 1 states that its use of this line of credit in the past, and its planned use for the proposed increase in the line of credit, is as a means of readily available interim funding for projects that will ultimately be paid for using grant funds or low-cost financing. Hardin District No. 1 does not propose to use this line of credit in place of longer-term financing. Hardin District No. 1 has been awarded a significant amount in grant funding for specific purposes, and it is expected that when received those grant funds will be used to pay the balance on the line of credit. In its application, Hardin District No. 1 states that the current total grant or low-cost loan dollars allocated to Hardin District No. 1 are \$8,688,288 and are allocated as follows:

- \$1,000,000 – KIA CWP21CWW075 – Cast Iron Main Replacement (Co. Water).

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<sup>14</sup> Case No. 2017-00144, April 17, 2017 Order; Case No. 2022-00337, Dec. 9, 2022 Order; and Case No. 2015-00181, *Application of the Cannonsburg Water District for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC July 8, 2015).

- \$205,000 – KIA CWP21CWS407 – Radcliff Wastewater Screw Press Building Rehab.
- \$995,000 – Rural Development Loan – County Water Expansion, Filter & Gray Line Improvements.
- \$4,500,000 – ARPA Grant SLFRF – Partial funding of the Rural Development Project above, Fixed Based Meter Reading, Pirtle Water Treatment Filter Media Replacement, County Expansion of Unserved Roads.
- \$1,300,000 – KIA 22CWW319 – County Water Expansion of Unserved Roads Project.
- \$688,288 – KIA 22CWW320 – County Water Expansion of Unserved Roads Project Phase II.<sup>15</sup>

Hardin District No. 1 does not seek an increase in rates due to this financing. Because Hardin District No. 1 does not propose to use this line of credit as a substitute for lower-cost financing, but as a means of funding expenses until the proceeds from either grant awards or lower-cost loans are received, use of this line of credit will not impair Hardin District No. 1's ability to provide water service to the public.

IT IS THEREFORE ORDERED that:

1. Hardin District No. 1 is authorized to borrow up to \$10,000,000 from Cecilian Bank using a line of credit, subject to the terms and provisions of the line of credit agreement filed in the record.

2. Hardin District No. 1 is authorized to execute the line of credit herein authorized, and that the line of credit shall replace the existing line of credit.

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<sup>15</sup> Application at 4.


3. The advances from the transaction authorized herein shall be used only for the lawful purposes set out in Hardin District No. 1's application. None of the advances of the proceeds authorized herein shall be used to finance the construction of any facilities that require a Certificate of Public Convenience and Necessity under KRS 278.020(1) until such a Certificate has been issued by the Commission.

4. 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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PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ENTERED  
JUN 30 2023  
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KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director



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