

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF TAYLOR COUNTY R.E.C.C.	)	
FOR AUTHORIZATION TO BORROW \$6,500,000	)	CASE NO.
FROM COBANK AND EXECUTE NECESSARY	)	2018-00130
NOTES AND TO REFINANCE SHORT TERM	)	
NOTES IN THE SAME AMOUNT	)	

ORDER

On April 11, 2018, Taylor County Rural Electric Cooperative Corporation (“Taylor County”) filed an application for authority to execute notes to National Bank for Cooperatives (“CoBank”) in an amount up to \$6,500,000.<sup>1</sup> By letter dated April 18, 2018, the Commission notified Taylor County that its application was rejected as deficient. On April 24, 2018, Taylor County filed an amended application that cured the deficiencies and the application was deemed filed by letter dated April 25, 2018. On May 29, 2018, Commission Staff issued its First Request for Information to Taylor County (“Staff’s First Request”). Taylor County filed its responses on June 7, 2018. There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

Taylor County currently has a \$3,000,000 revolving line of credit with CoBank, and a \$3,000,000 revolving line of credit with Cooperative Finance Corporation (“CFC”) both which require a pay down of the entire outstanding balance for a 12-month period.<sup>2</sup> The

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<sup>1</sup> Application, paragraph 7.

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

revolving line of credits are used to fund Taylor County's general fund account and is primarily used for daily operation expenses, which include work plan projects being built by Taylor County.<sup>3</sup> Taylor County proposes to refinance these two short-term notes, including any accrued interest, into one long-term note with CoBank at an approximate fixed rate of 4.59 percent, for a term of 30 years.<sup>4</sup> The short-term notes have a variable rate of interest and Taylor County seeks to eliminate this interest rate risk and increase its cash flow.<sup>5</sup> Taylor County seeks the stability of a fixed rate of interest versus the variable rates of interest that have shown some volatility in the recent past. Taylor County estimates the refinancing will provide a cash flow savings of \$259,476 with a net present value of \$48,763.<sup>6</sup>

In response to Staff's First Request, Taylor County itemized the difference between the requested loan amount and the payoff of the two revolving lines of credit, an amount of \$500,000.<sup>7</sup> In that response, Taylor County stated that approximately \$59,738 would be used to pay the interest on the lines of credit; \$1,000 would be used for Attorney fees and closing costs; \$250,000 would be for transferring funds from a money market account to the operating account; and the remaining balance of \$189,262 would be for other expenses incurred during the application process. The Commission finds that the expenses for attorney fees and closing costs and the interest to be paid on the lines of credit are appropriate and should be paid out of the proposed loan funds. The

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<sup>3</sup> Application, Exhibit 2.

<sup>4</sup> Staff First Request, Item 1.

<sup>5</sup> Application, Exhibit 3 and Staff's First Request, Item 4.

<sup>6</sup> Staff First Request, Item 7.

<sup>7</sup> Staff First Request, Item 2.

Commission believes Taylor County has not given justification as to the transfer of \$250,000 to the operating account nor justification for the \$189,262 of other unidentified expenses. Therefore, the Commission will not authorize Taylor County to borrow these amounts.

The final amounts of the payoff and the new CoBank loan will not be known until the refinancing transaction is finalized. Therefore, Taylor County should provide the Commission with the exact amount of the new CoBank loan within ten days of finalizing the transaction. The Commission, after consideration of the evidence of record and being sufficiently advised, finds that:

1. The loan from CoBank is for lawful objects within the corporate purposes of Taylor County, 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. Taylor County shall execute its note as security for the proposed loan in the manner described in its application.

3. Within ten days of finalizing the refinancing transaction, Taylor County shall notify the Commission in writing of the exact amount of the new CoBank loan.

4. Within ten days of the execution of the new CoBank loan documents, Taylor County should file with the Commission one copy of the loan documents.

5. The proceeds from the proposed loan should be used only for the lawful purposes set out in Taylor County's application, including paying interest, attorney fees, and closing costs. The proposed loan, however, shall not include the proposed \$250,000

transfer to the operating account nor the proposed \$189,262 for other unidentified expenses.

6. The terms and conditions of the new CoBank loan should be consistent with the CoBank refinancing program as described in Taylor County's application.

IT IS THEREFORE ORDERED that:

1. Taylor County is authorized to borrow from CoBank \$6,000,000 to pay off the CoBank and CFC short-term notes proposed to be refinanced as identified in the application. Additionally, Taylor County may borrow the amount to pay the accrued interest charges on the outstanding lines of credit, and reasonable attorney fees and closing costs estimated at approximately \$61,000. The loan maturity date and interest rate shall be in accordance with the CoBank refinancing program as described in Taylor County's application.

2. Taylor County shall execute the CoBank loan documents as authorized herein.

3. Taylor County shall comply with all matters set out in finding paragraphs 3 through 6 as if they were individually so ordered.

4. Any documents filed in the future pursuant to finding paragraphs 3 and 4 shall reference this case number and shall be retained in the utility's general correspondence file.

5. 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 22 2018  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

Case No. 2018-00130

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