

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE  
COMMISSION

In the Matter of:

JONATHAN CREEK WATER DISTRICT AND )  
ITS INDIVIDUAL COMMISSIONERS, JIMMY )  
TUBBS, BARRY HILL, JOSH MEDLEY, )  
MARK HOLT, AND KARA WILSON )

CASE NO.  
2017-00469

\_\_\_\_\_)  
ALLEGED FAILURE TO COMPLY WITH )  
KRS 278.300 )

**DECLARATION OF BARRY HILL  
IN SUPPORT OF RESPONDENTS' RESPONSE TO  
COMMISSION STAFF'S POST HEARING REQUEST FOR INFORMATION**

Comes now the undersigned and after being duly sworn, states and deposes as follows:

1. I am a Former Commissioner of the Jonathan Creek Water District ("District").
2. I served on the District's Board of Commissioners from July 1993 to June 2017.
3. Following the hearing in this case on February 27, 2018, I reviewed the District's records relating to the loans it obtained over the past ten (10) years, as well as other records of the District. The representations made herein are based upon my review of those documents, my own personal knowledge, or information conveyed to me that I believe to be true.

4. I make this Declaration in support of Respondents' Response to Commission Staff's Post Hearing Request for Information. Any prior response of mine which was incorrect when made or, though correct when made, is now incorrect in any material respect, is hereby amended to conform to the representations made in this Declaration.

5. Upon information and belief, the Jonathan Creek Water Association, predecessor to the District, obtained loans aggregating \$1,468,000 from Farmers Home Administration, an

agency of the United States Government, represented by promissory notes dated July 24, 1974, April 20, 1978, and September 23, 1982 (“**FHA Loans**”). The District assumed this loan in 1992 when it converted from an association to a water district organized under the provisions of KRS Chapter 74. These loans financed the District’s original infrastructure and were secured by mortgages on the District’s facilities. All but \$61,000 of these loans bore interest at 5% per year. The remaining \$61,000 bore interest at 12.375% per year. Upon information and belief, principal and interest were repayable in annual installments aggregating approximately \$90,448, or \$7,537.33 per month. \$85,000 of these loans matured in July 2014; \$1,180,000 of these loans matured in 2018; and \$203,000 of these loans matured in September 2022. These loans were ultimately assigned to Wells Fargo Bank and were refinanced by CFSB Loan #1 below.

6. In late 1994 or early 1995, the District obtained a loan in the original principal amount of \$2,612,500 from the Kentucky Infrastructure Authority (“**KIA**”) and a \$750,000 Community Development Block Grant (“**CDBG**”) to construct two new wells, a 2 million gallon per day capacity water treatment plant with a 400,000-gallon clear well, a booster pump station and to replace existing lines and main extensions. This loan had a 20-year maturity date and was scheduled to mature in February 2015. (See PSC Case No. 94-0073). The District refinanced this loan with KIA in 2004 (“**KIA Loan**”). It is believed the maturity date was unchanged. In 2014, the year the District refinanced this loan with CFSB Loan #2, the scheduled annual payments on this loan were approximately \$212,580, or \$17,715 per month.

7. Prior to refinancing the FHA Loans and KIA Loan with the CFSB loans below, the District’s debt service for principal and interest payments on the FHA Loans and KIA Loan were approximately \$303,018 per year, or \$25,252.33 per month.

8. On February 6, 2013, the District obtained a loan from Community Financial Services Bank (“CFSB”) in the amount of \$336,222.48 (“**CFSB Loan #1**”), to refinance the remaining balances on the FHA Loans aggregating \$336,222.48, secured by a mortgage and security agreement on the District’s property. Principal and interest were repayable in semi-annual installments of \$37,483 each February and August, or \$74,966 annually. This loan was scheduled to mature on February 6, 2018 and bore interest at 4% per year. This loan was refinanced by CFSB Loan #4 below. To my knowledge, the District did not obtain prior Commission approval for this loan. The loan documents relating to this loan are documents **3.1 through 3.8** of Respondents’ Response to Commission Staff’s Post Hearing Request for Information filed herewith.

9. On January 31, 2014, the District obtained a loan from CFSB in the amount of \$142,427.82 (“**CFSB Loan #2**”), secured by a mortgage and security agreement on the District’s property, to refinance the KIA loan in the amount of \$142,427.82. Principal and interest were repayable in semi-annual installments of \$72,905.89, each, or \$145,811.78 annually. This loan was scheduled to mature on January 31, 2015 and bore an interest rate of 3.125% per year. This loan was refinanced by CFSB Loan #4 below. To my knowledge, the District did not obtain prior Commission approval for this loan. However, I understand that it may have been exempt from KRS 278.300 since the term was less than 2 years. The loan documents relating to this loan are documents **3.9 through 3.16** of Respondents’ Response to Commission Staff’s Post Hearing Request for Information filed herewith.

10. On May 8, 2014, the District obtained a loan from CFSB, an open line of credit in the maximum principal amount of \$100,000.00 (“**CFSB Loan #3**”). Between June 4, 2015, and April 26, 2017, there was a zero balance on the line of credit. On April 27, 2016, the District

advanced \$57,000 from this line of credit as the first payment for the repair or maintenance on the Reed Water Tank, in an effort to improve the quality of the District's water. On May 4, 2016, the District used part of the proceeds from CFSB Loan #4 to pay down this line of credit to \$29.28, ultimately paying it down to \$0.00 by June 14, 2016. From June 14, 2016, to June 22, 2017, the line of credit had a zero balance. To my knowledge, the District did not obtain prior Commission approval for this loan. The loan documents relating to this loan are documents **3.17 through 3.22** of Respondents' Response to Commission Staff's Post Hearing Request for Information filed herewith.

11. On April 2, 2015, the District obtained a loan from CFSB, a draw down line of credit, having a maximum principal amount of \$500,000 ("**CFSB Loan #4**"), secured by a mortgage and security agreement on the District's property, to refinance CFSB Loan #1 and CFSB Loan #2 and to purchase new equipment. The District did not advance the full amount of this loan. Rather, it advanced \$461,650.60. This loan was scheduled to mature on April 15, 2021 and bore interest at 3.125% per year. Prior to May 15, 2016, the District was only required to pay monthly installments of interest. Beginning May 15, 2016, principal and interest were repayable in 59 monthly installments of \$9,032.71, or \$108,392.52 per year. The following sets forth how the proceeds from this loan were applied:

- a. \$211,036.65 - Payoff remaining balance on CFSB Loan #1
- b. \$47,444.59 - Payoff remaining balance on CFSB Loan #2
- c. \$203,169.36 - Purchase the following equipment:
  - i. \$20,000.00 – 2015 Chevrolet 2500 Truck
  - ii. \$15,683.36 – Air Compressor for Pneumatic Mole
  - iii. \$74,766.00 – SCADA and Telemetry System Upgrades

- iv. \$10,000.00 – Kubota backhoe attachment
- v. \$82,720.00 – 2015 John Deere Backhoe

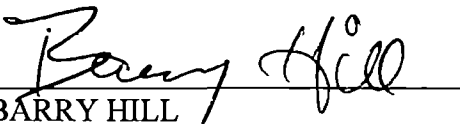
This loan was refinanced by CFSB Loan #5 below. To my knowledge, the District did not obtain prior Commission approval for this loan. The loan documents relating to this loan are documents **3.23 through 3.30** of Respondents' Response to Commission Staff's Post Hearing Request for Information filed herewith.

12. On May 3, 2016, the District obtained a loan from CFSB in the amount of \$600,671.50 ("**CFSB Loan #5**") to refinance CFSB Loan #4 and make repairs to the system, secured by a mortgage and a security agreement on the District's property. Principal and interest are repayable in monthly installments of \$10,850.22, or \$130,202.64 per year. This loan matures on April 15, 2021 and bears interest at 3.15% per year. The following sets forth how the proceeds from this loan were applied:

- a. \$339,579.22 - Payoff remaining balance on CFSB Loan #4
- b. \$57,000.00 – Paydown CFSB Loan #4 to \$29.28 – Repairs of Reed Water Tank first payment to improve quality of District's water
- c. \$39,283.50 – Repairs to Well to improve quality of District's water
- d. \$163,892.37 – Remaining repairs to Reed Water Tank to improve quality of District's water
- e. \$916.41 – Closing Costs and other expenses

To my knowledge, the District did not obtain prior Commission approval for this loan. The loan documents relating to this loan are documents **2.1 through 2.7** of Respondents' response to Commission Staff's Post Hearing Request for Information filed herewith.

13. The foregoing is true and correct to the best of my knowledge or belief.

  
BARRY HILL

STATE OF KENTUCKY

COUNTY OF MARSHALL

Subscribed, sworn to and acknowledged before me by Barry Hill on this 15<sup>th</sup> day of  
March, 2018.

  
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NOTARY PUBLIC

My commission expires: 8-15-2018  
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