

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF HYDEN-LESLIE)
COUNTY WATER DISTRICT FOR)
AUTHORIZATION TO ENTER A SHORT-TERM)
ASSISTANCE AGREEMENT WITH KENTUCKY)
RURAL WATER FINANCE CORPORATION TO) CASE NO. 2019-00412
REFUND AN EXISTING LOAN AND TO)
SUBSEQUENTLY ENTER A LONG-TERM)
ASSISTANCE AGREEMENT WITH THE)
KENTUCKY INFRASTRUCTURE AUTHORITY)

NOTICE OF FILING

Notice is given to all parties that the following materials have been filed into the record of this proceeding:

- The digital video recording of the evidentiary hearing conducted on February 5, 2020 in this proceeding;
- Certification of the accuracy and correctness of the digital video recording;
- All exhibits introduced at the evidentiary hearing conducted on February 5, 2020 in this proceeding;
- A written log listing, *inter alia*, the date and time of where each witness' testimony begins and ends on the digital video recording of the evidentiary hearing conducted on February 5, 2020.

A copy of this Notice, the certification of the digital video record, and hearing log have been served upon all persons listed at the end of this Notice. Parties desiring to view the digital video recording of the hearing may do so at <https://youtu.be/o6pT-5hv4il>.

Parties wishing an annotated digital video recording may submit a written request by electronic mail to pscfilings@ky.gov. A minimal fee will be assessed for a copy of this recording.

Done at Frankfort, Kentucky, this 28th day of February 2020.



Kent A. Chandler
Executive Director
Public Service Commission of Kentucky

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Hyden-Leslie County Water District
356 Wendover Road
Hyden, KY 41749

L.J. Turner
Hyden-Leslie County Water District
356 Wendover Road
Hyden, KY 41749

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

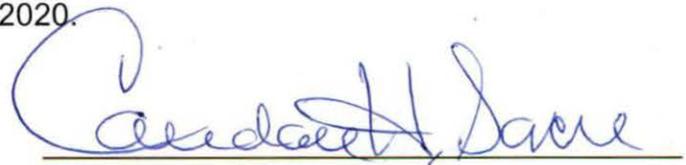
ELECTRONIC APPLICATION OF HYDEN-)
LESLIE COUNTY WATER DISTRICT FOR)
AUTHORIZATION TO ENTER A SHORT-TERM)
ASSISTANCE AGREEMENT WITH KENTUCKY) CASE NO.
RURAL WATER FINANCE CORPORATION TO) 2019-00412
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CERTIFICATION

I, Candace H. Sacre, hereby certify that:

1. The attached DVD contains a digital recording of the Formal Hearing conducted in the above-styled proceeding on February 5, 2020. The Formal Hearing Log, Exhibits, and Exhibit List are included with the recording on February 5, 2020;
2. I am responsible for the preparation of the digital recording;
3. The digital recording accurately and correctly depicts the Formal Hearing of February 5, 2020; and
4. The Formal Hearing Log attached to this Certificate accurately and correctly states the events that occurred at the Formal Hearing of February 5, 2020, and the time at which each occurred.

Signed this 27th day of February, 2020.



Candace H. Sacre
Administrative Specialist III



Stephanie Schweighardt
Notary Public State at Large ID#: 614400
Commission Expires: January 14, 2023



Date:	Type:	Location:	Department:
2/5/2020	Public Hearing\Public Comments	Hearing Room 1	Hearing Room 1 (HR 1)

Witness: Gregory E. Pridemore; Anthony Hollinsworth; Linda C. Bridwell; Michael Maggard; Kristen Millard; Augustus Roberts; William R. Lewis
 Judge: Talina Mathews; Michael Schmitt
 Clerk: Candace Sacre

Event Time	Log Event
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9:32:23 AM	Session Started	
9:32:26 AM	Session Paused	
9:32:34 AM	Session Resumed	
9:32:35 AM	Chairman Schmitt Note: Sacre, Candace	We're now on the record. This is the Kentucky Public Service Commission. My name is Michael Schmitt. I am Chairman of the Commission. Seated to my right is Dr. Talina Mathews. Vice Chairman Robert Cicero is not here this morning but expect that he will review the transcript and any documents that are in the file, and he will participate in the final decision which is rendered.
9:33:01 AM	Chairman Schmitt Note: Sacre, Candace	We are here today in Case No. 2019-00421, the Application of Hyden-Leslie County Water District for Authorization to Enter a Short-Term Assistance Agreement with Kentucky Rural Water Finance Corporation to Refund an Existing Loan and to Subsequently Enter a Long-Term Assistance Agreement with the Kentucky Infrastructure Authority.
9:33:27 AM	Chairman Schmitt Note: Sacre, Candace	Prior to today, the Commission has entered an Order approving the authorization or authorizing Hyden-Leslie Water District to enter into an Assistance Agreement with Kentucky Rural Water Finance Corporation, and the purpose of this hearing is to discuss or take evidence on a subsequent long-term Assistance Agreement with the Kentucky Infrastructure Authority which, if approved, will refund or take out the shorter-term loan which has been previously approved with Kentucky Rural Water Finance Corporation.
9:34:12 AM	Chairman Schmitt Note: Sacre, Candace	I've looked at the record, and, Mr. Wuetcher, I see that Notice of this hearing has been apparently published in the local newspaper?
9:34:24 AM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	Yes, Your Honor, Notice was published a week ago last Thursday. We filed with the Commission, in accordance with the Commission's order of January 17th, a Request for Publication in the local newspaper. We have not received the Affidavit of Publication from the publisher. We expect to have it today or tomorrow, and, as soon as we do, we'll go ahead and file that in the record of the case.
9:34:47 AM	Chairman Schmitt Note: Sacre, Candace	I saw Mr. Turner's email that was attached that indicated that Notice had been given to the newspaper and expected it to be published, I think, January 24 or something like that, so we assume that it has been.

9:35:02 AM	Chairman Schmitt Note: Sacre, Candace	At this time, would counsel for Hyden-Leslie County Water District please identify himself for the record, his client, and I know there were a number of witnesses who were requested and/or subpoenaed to be here today on behalf of Hyden-Leslie, and, Mr. Wuetcher, would you please tell us who those are for the record?
9:35:21 AM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	Yes, Your Honor, on behalf of the Hyden-Leslie County Water District, Gerald Wuetcher with the law firm of Stoll Keenon Ogden. The address is 300 West Vine Street, Suite 2100, Lexington, Kentucky 40507. Appearing on behalf of the Water District as subpoenaed by Commission Staff and ordered by the Commission's Order of January 17th, next to me is Mr. L. J. Turner, the General Manager; the commissioners from the Water District, Mr. Augustus Roberts, the Chairman; Mr. Timothy Helton, the Vice Chair of the Water District; Mr. William Todd Horton, the Secretary-Treasurer; and Mr. Ronnie Gay, one of the remaining Commissioners. There was a fifth commissioner who was ordered to appear, Mr. Wooten, and he requested and his request for excusal was granted by the Commission for medical reasons.
9:36:20 AM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	Also appearing is Mr. Mike Maggard, who is with the firm of Sisler-Maggard Engineering. His firm provides engineering services for the Water District. As to the remaining witnesses, I'm not sure I would characterize them as witnesses for the Water District, but I believe Ms. Linda Bridwell is here as a representative of the Kentucky Infrastructure Authority; as a representative of the Kentucky Rural Water Finance Corporation, Ms. Kristen Millard; and I think representatives for the Rural Development State Office, Mr. Anthony Hollinsworth and Mr. Greg Pridemore.
9:37:03 AM	Chairman Schmitt Note: Sacre, Candace	Thank you. Now, those wouldn't be. I guess they're just informational witnesses, so you're not responsible for them.
9:37:10 AM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	Yes, sir.
9:37:12 AM	Chairman Schmitt Note: Sacre, Candace	Thank you, Mr. Wuetcher.
9:37:14 AM	Chairman Schmitt Note: Sacre, Candace	And for Staff?
9:37:16 AM	Staff Atty Koenig PSC Note: Sacre, Candace	Brittany Koenig, Eddie Beavers, and Jim Stevens for the PSC.
9:37:19 AM	Chairman Schmitt Note: Sacre, Candace	Okay. Thank you.
9:37:24 AM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	Your Honor, I believe also the Judge-Executive for Leslie County is also present today, and I believe he had been served with a subpoena by Staff. He's also present today.

9:37:35 AM	Chairman Schmitt Note: Sacre, Candace	Thank you. Normally, we would start at probably 9:30 and then break for lunch around noon, and that would have been or was what we anticipated doing until last evening. It turns out that something happened that Vice Chairman Cicero couldn't be here, so I thought we ought to have two Commissioners here at all times, and at one o'clock the Executive Director and I have a meeting involving Martin County Water District at the Energy and Environment Cabinet, so what we're going to try to do is push forward and see if we can finish by one. If we can't, then we'll break for lunch at a quarter till one and come back at 2:15, as our meeting ought to be completed by two o'clock, and then we'll try to finish up, and I'm sorry for any inconvenience that causes everybody. I know people usually would rather go to lunch at noon, but, due to the circumstances, there really isn't much we can do about it other than to proceed like this.
9:38:42 AM	Chairman Schmitt Note: Sacre, Candace	I guess, Mr. Wuetcher, Ms. Koenig, I don't know how she plans to proceed, but, at some point, if she gets to witnesses that are from Hyden-Leslie County Water District, I would ask that you at least question the witness in terms of who they are and how long they've served, what their job descriptions are, and whatever, and then Ms. Koenig will be able to examine, and then you'll have a chance to follow up when that's completed.
9:39:15 AM	Chairman Schmitt Note: Sacre, Candace	For other witnesses, Ms. Koenig will, I guess, qualify them and get the initial information herself, and when she's completed, you'll have an opportunity to ask questions, if you'd like, okay?
9:39:29 AM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	Yes, sir.
9:39:30 AM	Chairman Schmitt Note: Sacre, Candace	Is there anything that counsel for either of the parties thinks the Commission needs to know or discuss prior to starting this testimony?
9:39:39 AM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	None that I'm aware of, Your Honor.
9:39:41 AM	Chairman Schmitt Note: Sacre, Candace	Ms. Koenig, anything?
9:39:42 AM	Staff Atty Koenig PSC Note: Sacre, Candace	We received Ms. Bridwell's filed testimony that we would like to file as an exhibit, but we can do that after I call her as a witness, I guess.
9:39:54 AM	Chairman Schmitt Note: Sacre, Candace	All right, that's fine. I think I saw that this morning or maybe late yesterday evening. That'll be fine. We'll go ahead and admit it. You don't have any objection, Mr. Wuetcher, to filing it? Have you seen Ms. Bridwell's testimony?
9:40:06 AM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	Ms. Bridwell provided me with a copy yesterday evening by email, and we have no objection to that.
9:40:12 AM	Chairman Schmitt Note: Sacre, Candace	We'll go ahead at this time and let it be filed, if you have a copy to file, or it's already in the file?
9:40:19 AM	Staff Atty Koenig PSC Note: Sacre, Candace	Yes, I've provided the transcriptionist -
9:40:22 AM	Chairman Schmitt Note: Sacre, Candace	Well, let that be filed, Ms. Sacre, as Commission Staff Exhibit 1.

9:40:28 AM	PSC STAFF EXHIBIT 1 Note: Sacre, Candace	DIRECT TESTIMONY OF LINDA C. BRIDWELL, P.E.
9:40:30 AM	Chairman Schmitt Note: Sacre, Candace	All right, Ms. Koenig, you may proceed.
9:40:32 AM	Staff Atty Koenig PSC Note: Sacre, Candace	The Commission would like to call Ms. Bridwell.
9:40:51 AM	Chairman Schmitt Note: Sacre, Candace	Witness is sworn.
9:41:01 AM	Chairman Schmitt Note: Sacre, Candace	Ms. Koenig, you may ask.
9:41:02 AM	Staff Atty Koenig PSC Note: Sacre, Candace	Thank you.
9:41:03 AM	Staff Atty Koenig PSC - witness Bridwell Note: Sacre, Candace	Direct Examination. Good morning. As we've just stated, you've provided some written testimony to be filed in the record as PSC Exhibit 1, and I appreciate that very much. It's very helpful to explain the processes, but I'd like to just go ahead and review it for purposes of the audience here, and if you could state your name and address and your position.
9:41:42 AM	Staff Atty Koenig PSC - witness Bridwell Note: Sacre, Candace	Thank you. You also go ahead and state that you have testified before the PSC previously, and you give a rundown of your educational background. Would you like to just give the highlights of those qualifications?
9:42:21 AM	Staff Atty Koenig PSC - witness Bridwell Note: Sacre, Candace	Thank you, so part of the duties that you list as Deputy Executive Director at KIA, you list that the financial staff at KIA reviews loan applications, prepares credit analysis for each loan application, and recommends loans for approval to the board of directors, and you're here because of doing this with Hyden-Leslie County Water District, is that correct?
9:43:06 AM	Staff Atty Koenig PSC - witness Bridwell Note: Sacre, Candace	Okay, thank you. You go on and explain the purpose of KIA and some of the loan programs that are available at KIA, but you go on to state that Hyden-Leslie does not have any current active loans with KIA right now, is that correct?
9:43:38 AM	Staff Atty Koenig PSC - witness Bridwell Note: Sacre, Candace	And so, when we get to page 5, if you're following along, you say that the loan that we're talking about here at issue for this case, the letter of intent was received on January 3, 2019?
9:44:02 AM	Staff Atty Koenig PSC - witness Bridwell Note: Sacre, Candace	And that maybe there had been conversations previous to that with the Water District with other members of KIA?
9:44:28 AM	Staff Atty Koenig PSC - witness Bridwell Note: Sacre, Candace	But the first instance for you to have interaction about this loan and this project was around January 2019, is that correct?
9:44:43 AM	Staff Atty Koenig PSC - witness Bridwell Note: Sacre, Candace	And then KIA sent an invitation to Hyden-Leslie to apply for the loan?
9:45:14 AM	Staff Atty Koenig PSC - witness Bridwell Note: Sacre, Candace	And so the letter of intent doesn't include any financial analysis at that stage; we're not there yet, correct?
9:45:33 AM	Staff Atty Koenig PSC - witness Bridwell Note: Sacre, Candace	And so then you went on to file some testimony about the credit analysis that KIA undertook, and it was done by two different analysts at the Kentucky Infrastructure Authority, is that correct?

9:45:51 AM Staff Atty Koenig PSC - witness Bridwell
Note: Sacre, Candace But, ultimately, the credit analysis recommendation was to approve the loan?

9:46:12 AM Staff Atty Koenig PSC - witness Bridwell
Note: Sacre, Candace Could you elaborate on the concerns? I think, at the bottom of page 6, you talked about they didn't have sufficient revenue at that time?

9:47:42 AM Staff Atty Koenig PSC - witness Bridwell
Note: Sacre, Candace Was there also a concern about how much debt was listed?

9:48:49 AM Staff Atty Koenig PSC - witness Bridwell
Note: Sacre, Candace And who from Hyden-Leslie did KIA interact with? Was it -

9:49:02 AM Staff Atty Koenig PSC - witness Bridwell
Note: Sacre, Candace You said that you were basing your decision on three years of audits and that you discovered the extra loans and stuff like that, so that was considered into the analysis as well, is that - all of the debt service?

9:49:17 AM Staff Atty Koenig PSC - witness Bridwell
Note: Sacre, Candace Was there any discussion about that they would need a base rate increase in addition to what type of an increase in revenue would be needed to serve the loan?

9:49:59 AM Staff Atty Koenig PSC - witness Bridwell
Note: Sacre, Candace You do mention grant money. Does KIA bring grant opportunities to the water districts it serves as well?

9:51:03 AM Staff Atty Koenig PSC - witness Bridwell
Note: Sacre, Candace And you did mention that Hyden-Leslie was not eligible to use the Fund A on this project because it had been started previously and, if they were to qualify, that project would have had to qualify in 2014, is that correct?

9:52:23 AM Staff Atty Koenig PSC - witness Bridwell
Note: Sacre, Candace But were they eligible for some grants? Were there some grants that were -

9:52:57 AM Staff Atty Koenig PSC - witness Bridwell
Note: Sacre, Candace Who would be able to speak to that?

9:53:07 AM Staff Atty Koenig PSC - witness Bridwell
Note: Sacre, Candace But certainly Hyden-Leslie is aware they applied for a grant, and they can speak to it?

9:53:18 AM Staff Atty Koenig PSC - witness Bridwell
Note: Sacre, Candace And you were considering those grant applications as part of what you would need to ask for as far as the revenue increase, is that correct?

9:54:09 AM Staff Atty Koenig PSC - witness Bridwell
Note: Sacre, Candace But the loan that's at issue here, the 30-year loan, as part of that, is the revenue increase suggested 40 percent?

9:54:18 AM Staff Atty Koenig PSC - witness Bridwell
Note: Sacre, Candace Is that usual for a construction project loan increase? Is that an unusual amount? It seems like a large amount to be -

9:55:01 AM Staff Atty Koenig PSC - witness Bridwell
Note: Sacre, Candace And so you talked about your concerns with them, but they ultimately - you were recommending approval for the loan, but please explain the conference that needed to be set up. Was there a communication issue or -

9:56:20 AM Staff Atty Koenig PSC - witness Bridwell
Note: Sacre, Candace And I'm not sure what time period the conference calls were exactly taking place, but were the funding agencies aware of the investigative case 2019-00041 that Hyden-Leslie was a part of and gave testimony this summer in hearings?

9:57:01 AM	Staff Atty Koenig PSC - witness Bridwell Note: Sacre, Candace	But it wasn't a surprise that he testified that they were already operating in the red in June?
9:57:12 AM	Staff Atty Koenig PSC - witness Bridwell Note: Sacre, Candace	Were you aware of the extensions that had taken place with the short-term loan with Kentucky Rural Water?
9:58:01 AM	Staff Atty Koenig PSC - witness Bridwell Note: Sacre, Candace	And, just to go back a minute, who participated in the conference calls? Which groups?
9:58:37 AM	Staff Atty Koenig PSC - witness Bridwell Note: Sacre, Candace	You did mention that you knew that the PSC needed to do loan authorization, but, after the investigative report was issued in November, were you aware of the investigative report and the Order that Hyden-Leslie was under in November 2019?
9:59:05 AM	Staff Atty Koenig PSC - witness Bridwell Note: Sacre, Candace	2019-00041 case, there was an Order, and the report was part of the Order.
9:59:20 AM	Staff Atty Koenig PSC - witness Bridwell Note: Sacre, Candace	Was there any discussion with Hyden-Leslie to that effect, or did they mention anything about consideration of a rate case at that point, or -
9:59:54 AM	Staff Atty Koenig PSC - witness Bridwell Note: Sacre, Candace	Do you know why they weren't filed? I mean, you said it was timing, but were there any other complications as far as concerns with their operations or the way they were keeping records? Do you know why they needed the extensions because they weren't meeting deadlines?
10:00:53 AM	Staff Atty Koenig PSC - witness Bridwell Note: Sacre, Candace	That kinda answers my second question as to why they weren't filing the rate case as well. You don't know any more of -
10:01:14 AM	Staff Atty Koenig PSC - witness Bridwell Note: Sacre, Candace	As far as the sense of urgency that you talked about, you started working with Hyden-Leslie in January of 2019, and then it progressed and included all the funding agencies, but they were extending deadlines, and then eventually KIA granted this last extension that they needed because they hadn't met the conditions for the KIA loan and extended their deadline to June 1, 2020, is that correct?
10:01:55 AM	Staff Atty Koenig PSC Note: Sacre, Candace	I have no further questions. Thank you very much.
10:02:00 AM	Chairman Schmitt Note: Sacre, Candace	Mr. Wuetcher, it might be easier for everybody, including you, if the Commissioners had questions and we asked, and then you could follow up and clear up anything.
10:02:06 AM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	I assumed that was going to be the Commission's procedure, and that's fine, Your Honor.
10:02:10 AM	Chairman Schmitt Note: Sacre, Candace	Commissioner Mathews, any questions?
10:02:13 AM	Commissioner Mathews Note: Sacre, Candace	I don't have any.
10:02:14 AM	Chairman Schmitt Note: Sacre, Candace	I have just a few.

10:02:18 AM	Chairman Schmitt - witness Bridwell Note: Sacre, Candace	Examination. Ms. Bridwell, the proposed loan from Kentucky Infrastructure Authority to Hyden-Leslie Water District would be for how much money?
10:02:50 AM	Chairman Schmitt - witness Bridwell Note: Sacre, Candace	What conditions, if any, that KIA required of Hyden-Leslie has not been met as of this time?
10:03:33 AM	Chairman Schmitt - witness Bridwell Note: Sacre, Candace	Does Kentucky Infrastructure Authority require Hyden-Leslie or other rural water districts approval of the loan by the Public Service Commission?
10:04:14 AM	Chairman Schmitt - witness Bridwell Note: Sacre, Candace	Do you think they need PSC approval?
10:04:23 AM	Chairman Schmitt - witness Bridwell Note: Sacre, Candace	Now, as I understand it and correct me if I'm wrong, in order to qualify for this loan, Kentucky Infrastructure Authority will require Hyden-Leslie Water District to increase its rates in 2020 by 40 percent and, thereafter, three percent every year, is that correct?
10:04:48 AM	Chairman Schmitt - witness Bridwell Note: Sacre, Candace	That's three percent every year during the term of the 30-year loan?
10:05:21 AM	Chairman Schmitt - witness Bridwell Note: Sacre, Candace	Have they committed to doing that?
10:05:36 AM	Chairman Schmitt - witness Bridwell Note: Sacre, Candace	In your experience with Kentucky Infrastructure Authority based on what you've seen since you've been there and based on what you've heard or learned institutionally, has KIA experienced situations where rural water districts would borrow money and then, as time went on, and not fulfill all requirements of the loan covenants, other than paying it back?
10:06:28 AM	Chairman Schmitt - witness Bridwell Note: Sacre, Candace	And what if they don't?
10:06:40 AM	Chairman Schmitt - witness Bridwell Note: Sacre, Candace	The reason I ask is I know that we've had meetings with Kentucky Infrastructure in an attempt to help protect water districts and their customers and, at the same time, see that their loans are properly paid off, isn't that correct?
10:06:55 AM	Chairman Schmitt - witness Bridwell Note: Sacre, Candace	And the covenants are met?
10:06:58 AM	Chairman Schmitt - witness Bridwell Note: Sacre, Candace	And I don't know if you know, we've met with Rural Development, and they seem to have the same problem with water districts on occasion. Are you aware of any of that?
10:07:27 AM	Chairman Schmitt - witness Bridwell Note: Sacre, Candace	Apparently, Hyden-Leslie Water District has obtained an extension of time from Rural Development to meet the conditions necessary to obtain an RD loan. Are you familiar with that at all?
10:08:09 AM	Chairman Schmitt - witness Bridwell Note: Sacre, Candace	You're not familiar with what conditions that RD placed on Hyden-Leslie that they have been unable to meet as of this time, is that correct?
10:08:31 AM	Chairman Schmitt - witness Bridwell Note: Sacre, Candace	I'm just asking, did you know what those conditions were?

10:08:48 AM Chairman Schmitt - witness Bridwell
Note: Sacre, Candace You indicated that there was apparently, at least, not directly through what you do at KIA, but there were or was a community block grant that may or may not have been available to Hyden-Leslie Water District that you understood Hyden-Leslie had applied for, is that correct?

10:09:10 AM Chairman Schmitt - witness Bridwell
Note: Sacre, Candace And are you familiar with whether or not that application for a block grant was approved?

10:10:00 AM Chairman Schmitt - witness Bridwell
Note: Sacre, Candace It wasn't awarded, is that correct?

10:10:04 AM Chairman Schmitt - witness Bridwell
Note: Sacre, Candace Now, the block grant, is a block grant money that the Water District would receive for which it was not required to make any payment back?

10:10:22 AM Chairman Schmitt - witness Bridwell
Note: Sacre, Candace So the County would receive the money under the block grant, but the money would go to the Water District to meet its needs or for infrastructure or whatever?

10:10:48 AM Chairman Schmitt - witness Bridwell
Note: Sacre, Candace But the County wouldn't be required to pay the money back?

10:10:52 AM Chairman Schmitt - witness Bridwell
Note: Sacre, Candace It's your understand that the County never approved the block grant or never provided the documentation that would have permitted the Water District to receive the money, is that correct?

10:11:11 AM Chairman Schmitt - witness Bridwell
Note: Sacre, Candace During the time that you've been with Kentucky Infrastructure Authority, has Kentucky Infrastructure Authority occasionally, on one or more occasions, had instances where rural water districts which had borrowed money from KIA have missed loan payments?

10:11:55 AM Chairman Schmitt - witness Bridwell
Note: Sacre, Candace Until today or within the last month, were you aware of the fact that Hyden-Leslie Water District has not been before the Public Service Commission for a base rate increase since it was formed in 1968?

10:12:33 AM Chairman Schmitt
Note: Sacre, Candace I have no further questions. Mr. Wuetcher?

10:12:35 AM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace Thank you, Your Honor.

10:12:37 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Cross Examination. Good morning, Ms. Bridwell. It's almost like old times, isn't it?

10:12:42 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Let me go ahead and, I guess, let's start back just with the time schedule. You would agree that, based on how Hyden-Leslie framed this application to KIA, it's become very complex, and it had a number of players in it, and it required a number of actions to be done in order for everything to work out for Hyden-Leslie to meet the requirements of the KIA loan?

10:13:14 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace And timing became extremely important given the fact that it had a short-term loan with Kentucky Rural Water Finance Corporation which was going to expire or come due on February 1st of this year, is that correct?

10:13:37 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace So, essentially, as part of your involvement in this matter or KIA's was everything had to be keyed to getting the KIA loan by February 1 in order to pay off the existing Kentucky Rural Water Finance Corp note, is that correct?

10:14:06 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace And, if that didn't happen, then the District would have some problems. Would you agree with that?

10:14:19 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace They would have to get issued a new note, and that note, unlike other two-year notes because they had turned this over for a period of more than six years, it would require PSC approval?

10:14:41 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace So let's go back a little bit. Would you agree or do your records show that Hyden-Leslie contacted KIA sometime in November, about November 29, 2018, to inquire about the possibility of a Fund B loan?

10:15:07 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace If I represented to you that Mr. Turner called Ms. McNeil on or about November 29th, you'd have no reason to disagree with it?

10:15:20 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace And if I told you that the minutes of the November 29, 2018, board meeting of Hyden-Leslie's County Water District show that Mr. Turner had relayed that conversation to his board members, you'd have no reason to disagree with that either?

10:15:45 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Now, once the process - the process is, if Hyden-Leslie wishes to borrow money from Fund B, it first has to give some type of notice of intent that it wants to to KIA?

10:16:16 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace And your records show that the letter of intent was not actually received by KIA until January 2, 2019?

10:16:25 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace And then, following that, there was a invitation to apply on January 4th that was sent to Hyden-Leslie?

10:16:38 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace The application, itself, how difficult is that to prepare?

10:17:00 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace The application, itself, was filed with KIA, I think, on March 1, is that correct?

10:17:19 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace So, that time period, you would not consider that to be delayed? That would be normal for the process, especially for a small water district like Hyden-Leslie County Water District?

10:17:33 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace When that began, you stated - do your records show any type of review by the KIA staff of the application? What happened after you all got the application?

10:18:17 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Was there anything in your records or do you know personally whether there was any delay on the part of Hyden-Leslie? Did it fail to be responsive to requests?

10:18:30 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Was there any complaints made by your staff that Hyden-Leslie was slow in responding?

10:18:36 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace As far as you know, on Hyden-Leslie's part, it was working actively in partnership with KIA to get everything done?

10:18:50 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace When was the credit analysis completed?

10:19:47 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Again, was part of the problem with performing the credit analysis was the complexity in terms of Hyden-Leslie County's reliance upon the Rural Development loan to produce the rates that were needed to satisfy the KIA debt service requirements?

10:21:09 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Let me ask about that. The KIA board issues the approval?

10:21:13 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace And that kinda starts the process, but then you also still have to get the approval of the Capital -

10:21:23 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Normally, how long does that take after the KIA board has issued the - its approval voted on?

10:21:49 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace I just want to kinda work back for a second because I'm trying to frnid out the timetable here. Let's say our drop-dead date is February 1, 2020, so that the KIA loan can replace the existing short-term note with Kentucky Rural Water Finance Corp. It requires PSC approval before KIA will go a head and execute the agreement and, I guess, tender the monies to Hyden-Leslie or to the outstanding lenders that have the existing note, is that correct?

10:22:28 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace So sixty days would mean an application would have to be filed with the PSC no later than December 1st, is that correct?

10:22:38 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace And that's cutting it extremely close?

10:22:41 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace I think the PSC has already said, has warned many water districts and I think Hyden-Leslie also, don't cut it to the last minute, so December 1 would be cutting it to the last minute?

10:22:56 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace So, at that point, if we take it back, you needed to have at least some type of approval from KIA to have met all the conditions on the loan no later than December 1, is that correct?

10:23:12 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Now, just so I understand, it was a little bit unclear to me, when the loan was approved by the KIA board, it attached two conditions other than the normal conditions to the loan, is that correct?

10:23:30 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace I'm trying to remember what those were. I know one was to file an application with the Public Service Commission no later than November 30th, asking for approval of both the KIA loan and authorization to go ahead and enter into a short-term note with Kentucky Rural Finance Corp, is that correct?

10:23:49 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace And then a second was some evidence from the board of commissioners of Hyden-Leslie County Water District that they intended to seek whatever rate adjustments were necessary to maintain the appropriate debt service coverage not only for the KIA loan but for any other loans that they had or later to acquire, is that correct?

10:24:13 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Then, for the life of me, I can't remember what that third one was. What was that third one?

10:24:23 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace There were no conditions in the KIA loan regarding a three percent annual increase, is that correct?

10:24:34 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace To the extent that there was a concern by KIA staff, the resolution and guarantee, I guess, by the board of commissioners that they were going to take the steps to increase their rates when their debt service coverage got below the minimum requirements of both the assistance agreement and other debts would satisfy, at least, in part, the concerns that KIA staff had, is that correct?

10:25:18 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace But the idea was the KIA board was sending a message to the Water District, "We're watching you, and you're going to have to have a rate adjustment to meet our debt service requirements?"

10:25:29 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace And just so I understand, I believe Hyden-Leslie currently has some loans with Rural Development, and, those loans, do they have a debt service coverage of one-point-two?

10:25:43 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace What's the debt service coverage requirement for the KIA loan?

10:25:48 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Is there a requirement that, if the applicant has other loans outstanding, they also have to meet the debt service requirement for the other loan?

10:26:00 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace If Rural Development has a one-point-two debt service coverage requirement, effectively, KIA has that, too, in the sense that it has to have rates to meet everybody's requirements?

10:26:14 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace I'm gonna move back now. I guess what I'm trying to find out from you all or from you is that, from the timeline, we know that December 1 was the date an application would have to be filed, and then, even before that, the District would have to have in place rates that would meet KIA's requirements and its other debt service requirements by December 1 in order to make an application to the PSC in order that you have committed fully that they could get the monies?

10:27:15 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Let's step back for a second. If the District had not relied upon the Rural Development - first of all, is it common for water districts and water associations, when they're looking at raising rates, and they come to you and say they're going to do it as part of a package or try and get rates through a Rural Development loan process as opposed to filing a general rate adjustment at PSC under, what I would call, the normal process?

10:28:04 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Let's talk about that for a second because you have experience with making rate applications, is that right?

10:28:13 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace While recognizing that Kentucky American is much, much larger than Hyden-Leslie, you would agree that, if an application is filed with the Public Service Commission under the normal procedures under KRS 278.180, it generally takes about six months from the filing of the application to get a final order of the Commission?

10:28:49 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Okay, so six months is the outer, and the suspension period that's found for the larger utilities is that you file, and then you have a suspension for five months unless you're using a future test period, then you might use six months?

10:29:06 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace And you are aware that that's basically - the suspension period is the same under the alternative rate filing process?

10:29:19 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace I mean, I think, technically, there is no - I'm sorry.

10:29:23 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace I understand, but we can agree it would take four to six months to get a rate adjustment through the PSC under normal circumstances?

10:29:32 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace If the District were going to go ahead and do that and it was looking to file a rate application based on what we have, it would have to - you'd have to move back at least another four or five months from that December 1 filing; we'd need to have rates in place in order to go ahead and go forward to go ahead and get the loan that's been proposed with KIA to refinance with it?

10:30:12 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace We're looking at something - they would have had to have filed something by August?

10:30:20 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Just to step back for a second, was there any suggestion made during this process before a credit analysis was completed to say, "This is really very complicated; it might be easier if you just filed a rate adjustment and included our proposed debt service in order to go ahead and get a rate increase to support the KIA loan?"

10:31:03 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Let me step back a second, again, recognizing you've been involved with ratemaking for a long time, if you're a - the Commission, when it sets rates, it can either use a future test period or a historical test period, is that correct?

10:31:21 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Now, Kentucky American, when you were there, took advantage of using the future test period?

10:31:29 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Are you aware of any water districts or water associations that had filed under 278.180 ever using a future test period?

10:31:40 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace It's normally not done because it requires a considerable amount of information, and it's very labor intensive. Unless you're a large corporation and have experiecne doing it, it's very difficult to do, is that correct?

10:32:01 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace If you're using a historical test period, then you're subject to the requirements of what's known and measurable. You can't go outside the historical test period except for limited circumstances, is that correct?

10:32:12 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Do you know if, since the KIA loan would not have been executed any time prior to the Commission issuing a final order on this rate application, whether the Commission would have set rates that included the debt service on the KIA loan, or would it have mattered?

10:32:56 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Would the board's decision or the recommendation of staff had changed if there had been an application filed for rate adjustment even though they didn't have the rates in place when the matter was submitted to the board in November?

10:33:33 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace I guess where I'm going with these questions is just the timeframe. If the District had wanted to shift gears as of the time the credit analysis had been done, it still would have had a difficult time meeting all the requirements and not having to request the Commission to allow it to enter into another short-term loan with Kentucky Rural Water Finance Corp. Would you agree with that?

10:34:07 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace I don't want to belabor the point, but I wanted to make sure the record is clear on this. In your mind as somebody who has been involved both on the investor-owned utility side and now working with government-owned utilities that are regulated by the PSC, there are some valid reasons why a utility might want to use the method for rate adjustment that's provided by KRS 278.023 and using Rural Development financing?

10:34:40 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace And you said one of those is the speed at which you can go through. It's a six-month - four to six months to get a PSC-approved rate adjustment. It's only a month after filing under the .023 statute, is that correct?

10:35:11 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Part of the issue there is how far along you've got with your project in meeting the RD requirements?

10:35:17 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace If you're still waiting for them, it might be faster to use the normal process?

10:35:24 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace If you had completed the process or are close to completion, it might be more advantageous, more speedy, to go ahead and use the .023 process, is that right?

10:35:35 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Would you agree that, when RD sets rates, while it uses a different methodology, it also looks at projected expenses rather than historical expenses?

10:35:49 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace I guess your staff looks at them as well. You're projecting out to see what the expenses are in terms of trying to think of what rates should be?

10:36:12 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Going back to the credit analysis, the first part of a credit analysis, your staff relies upon what? The PSC annual report and the utility's audit report?

10:36:41 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace The utility or the applicant, if it's a PSC-regulated entity, is it required to provide the annual report, or does your staff just simply go to the PSC web site or to the special-purpose governmental entity portal and download a copy?

10:36:58 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace So, in terms of doing your review on the financial condition of the utility, you basically can perform that, your staff can perform it at their desks with a few clicks of a mouse?

10:37:18 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace To access the information, to access the information?

10:37:29 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace And I'm not suggesting that they stop once they've downloaded the report, but that's the starting point?

10:37:34 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace So that's - you have that information, and you can make some ballpark estimations, and then you follow up with additional requests for information?

10:37:45 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace And that information, the PSC, is available to anyone; it's available to the public?

10:37:58 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Is it your understanding the audit report is also available?

10:38:06 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Do you know if that was an issue in this case?

10:38:23 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Regarding the CDBG grant, I just want to maybe clarify for the record, now, the grant, itself, the applicant for the grant is county government; it's not the Water District, is that correct?

10:38:36 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace And, in fact, I don't know if you are aware, but are you aware that the PSC, in the past, has held that it would not apply the .023 statute to the projects financed through a community development block grant alone because there is no contract between HUD and the water utility?

10:39:05 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace I'm assuming that because this was a complicated transaction that's where the conference calls started because things had to keep on moving?

10:39:14 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace When that was done, how often were those conference calls?

10:39:26 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace During those, I guess you got updates on what as going on from all the parties?

10:39:33 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace During that process, was there any indication to you that Hyden-Leslie was dragging their feet or in any way trying to delay the process?

10:39:43 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Did you get any indication that Hyden-Leslie - I take it, during this, Hyden-Leslie was still relying upon the RD rates and using KRS 278.023 to get the rates it needed to support both the RD loan and the KIA loan?

10:40:03 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Was there any suggestion, at that time, that the utility wanted to avoid PSC review, or was it, the reason, just the time constraints involved?

10:40:37 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Are you aware that the District has adopted a Resolution instructing its general manager to go ahead and apply for a rate adjustment as soon as possible?

10:40:54 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Are you aware that arrangements have been made with the Kentucky Rural Water Association to go ahead and have a rate study done and an application prepared?

10:41:07 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Let's assume for the moment that that study is completed, an application is filed, what impact - and that study is looking solely at the District's existing financial condition and the potential KIA loan to refinance the existing debt, what effect would that have on the KIA loan?

10:41:49 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Let me add another assumption to it. Let's assume they had filed the application, it is processed by the PSC, and the PSC issues a rate order substantially increasing rates, at that point in time, would there be any impact on the conditions that KIA has already assessed or attached to the proposed loan with KIA?

10:42:47 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace I guess the question I'm asking is KIA concern is with the rates, and the Water District says, "At this point, we need to lower our priority on the RD project, and so we're going to file a rate application, and we're going to get rates that will cover these costs and meet the requirements that KIA imposed on us in terms of debt service requirements." Does the obligation to meet all the requirements of the letter of conditions drop out? Would KIA change that, or would that be something that you would, at that point, say we can go back to the board and say, "We don't need this now because they have rates sufficient? They still have their Resolution promising to keep rates to cover the debt service requirements of all debts, and we've got this other provision in the actual assistance agreement?"

10:43:50 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace Talking again about timing, now, the deadline for filing - the District has a one-year deadline to meet the requirements for the KIA loan, is that correct?

10:44:04 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace If they do not get rates into effect by November 6th, is there a process by which they can get an extension?

10:44:40 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace During this period while you were having the conference calls, did KIA have any discussions with the Public Service Commission or officials from the Public Service Commission regarding Hyden-Leslie's condition?

10:45:22 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace And she was present at the November 7th meeting when the matter was presented to the KIA board?

10:45:33 AM Atty Wuetcher Hyden-Leslie District - witness Bridwell
Note: Sacre, Candace And I assume she followed the historical practice of abstaining on anything that involved a PSC-regulated utility?

10:45:42 AM	Atty Wuetcher Hyden-Leslie District - witness Bridwell Note: Sacre, Candace	Were there any discussions with the PSC after that board vote regarding Hyden-Leslie and its loan and its current financial condition?
10:46:10 AM	Atty Wuetcher Hyden-Leslie District - witness Bridwell Note: Sacre, Candace	When was that conversation?
10:46:15 AM	Atty Wuetcher Hyden-Leslie District - witness Bridwell Note: Sacre, Candace	And the PSC Commissioners were present?
10:46:19 AM	Atty Wuetcher Hyden-Leslie District - witness Bridwell Note: Sacre, Candace	And the PSC Staff were?
10:46:21 AM	Session Note Entry Note: Sacre, Candace	Is that including the Staff that's here today?
10:46:28 AM	Atty Wuetcher Hyden-Leslie District - witness Bridwell Note: Sacre, Candace	And the purpose of that discussion?
10:46:59 AM	Atty Wuetcher Hyden-Leslie District - witness Bridwell Note: Sacre, Candace	Just a couple more just, I guess, to reiterate. During your impression of the discussions with Hyden-Leslie, did Hyden-Leslie ever suggest that PSC authorization would not be required either for the KIA loan or for any type of refinancing of the Kentucky Rural Water Finance note?
10:47:24 AM	Atty Wuetcher Hyden-Leslie District - witness Bridwell Note: Sacre, Candace	And your recollection, did Mr. Turner or anyone else from KIA at any point suggest that the District was trying to avoid a review of its rates by the PSC?
10:47:48 AM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	That's all I have. Thank you.
10:47:51 AM	Chairman Schmitt Note: Sacre, Candace	Anything else?
10:47:52 AM	Staff Atty Koenig PSC Note: Sacre, Candace	No further questions.
10:47:53 AM	Commissioner Mathews Note: Sacre, Candace	(Shook head negatively.)
10:47:53 AM	Chairman Schmitt Note: Sacre, Candace	Commissioner Mathews?
10:47:54 AM	Chairman Schmitt Note: Sacre, Candace	I have nothing further. May Ms. Bridwell be excused?
10:47:58 AM	Staff Atty Koenig PSC Note: Sacre, Candace	Yes.
10:47:59 AM	Chairman Schmitt Note: Sacre, Candace	Any objection?
10:48:00 AM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	No, sir. No objection.
10:48:01 AM	Chairman Schmitt Note: Sacre, Candace	Thank you, Ms. Bridwell. You may step down, and you may be excused.
10:48:04 AM	Chairman Schmitt Note: Sacre, Candace	Do you another, someone else?
10:48:06 AM	Staff Atty Koenig PSC Note: Sacre, Candace	Yes, the Commission would like to call Mr. Pridemore from Rural Development.
10:48:22 AM	Chairman Schmitt Note: Sacre, Candace	Witness is sworn.
10:48:29 AM	Chairman Schmitt Note: Sacre, Candace	Please be seated. Ms. Koenig?

10:48:33 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace Direct Examination. Good morning, Mr. Pridemore. Could you please state your name and business address for the record?

10:48:48 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace And how are you employed with Rural Development? What is your position with Rural Development?

10:49:11 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace Have you previously testified with the PSC?

10:49:16 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace But you did file some testimony or you sent a letter to be filed in the record of this case, is that correct?

10:49:24 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace And it was filed in the record on January 31s, or, no, I'm sorry, on February 4th?

10:49:34 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace Your letter is dated January 30th, okay, so you filed a letter and just described your interaction with Hyden-Leslie Water District, is that correct?

10:49:46 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace Was it in your capacity as area specialist, or did you have interaction in a previous position?

10:50:00 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace And you actually interacted with Hyden-Leslie Water District in 2013, is that correct?

10:50:10 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace And it's when this project that's at issue here, the funding for the project, when that project was started, correct?

10:50:31 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace Perhaps, maybe the first phase of this project?

10:50:38 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace But, even so, it had already started when you spoke to the representatives of Hyden-Leslie, is that correct?

10:50:58 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace And you met with the previous manager, Leighman Howard, is that correct?

10:51:07 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace And the project engineer, Michael Maggard?

10:51:12 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace Was there anybody else that you met with?

10:51:23 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace You stated in your letter that you explained to the Hyden-Leslie District representatives that because it had already been bid and awarded perhaps did it not qualify for a certain part of the funding?

10:52:27 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace Do you know what kind of funding they had in place at the time?

10:52:46 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace But when you left them or in subsequent communications after that that you explained to them that they needed to file a complete application to be considered, is that correct?

10:53:00 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace And did they file a complete application?

10:53:08 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace And you said you made them fully aware of the urgency to provide the application if they wanted to be considered for the RD funding, is that correct?

10:53:18 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace And so then did you move jobs after that? So did you not have any more contact with Hyden-Leslie after this one interaction?

10:53:42 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace And you don't know if another area specialist or something took over dealings with Hyden-Leslie, or do you?

10:54:08 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace And then can Mr. Hollinsworth speak to who may have been involved in that?

10:54:19 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace Well, my understanding is that maybe some people retired from RD or whatever, but how were you contacted? We asked for a representative from RD that knew of dealings with Hyden-Leslie, and so are you the only one left, or how were you selected?

10:54:54 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace But you weren't involved in any subsequent funding discussions about RD and Hyden-Leslie after that?

10:55:02 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace And you left in 2015, so you wouldn't have anything in this recent Phase 3 discussion?

10:55:11 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace Do you know anybody from RD that was?

10:56:12 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace And that may have - you don't know, you couldn't speculate as to why that was or whether they decided to go with different funding or what that reason -

10:56:28 AM Staff Atty Koenig PSC - witness Pridemore
Note: Sacre, Candace And that happens, correct? I mean, it's pretty common?

10:56:39 AM Staff Atty Koenig PSC
Note: Sacre, Candace I have no further questions. I can follow up with Mr. Hollinsworth, I guess.

10:56:43 AM Chairman Schmitt
Note: Sacre, Candace Commissioner Mathews, any questions?

10:56:46 AM Commissioner Mathews
Note: Sacre, Candace No, thank you.

10:56:47 AM Chairman Schmitt - witness Pridemore
Note: Sacre, Candace Examination. Mr. Pridemore, I think part of the problem, I guess, and what we were trying to understand is, apparently, Hyden-Leslie borrowed money from Kentucky Rural Finance Corporation, which based on what - it seems to me they apparently intended, at some point in time, to replace that loan with a Rural Development loan, which might have been for better terms or something, and that was the impetus for, I guess, discussing with you or applying in 2013 or 2014 for an RD loan. I mean, do you have any recollection of that at all?

10:57:39 AM Chairman Schmitt - witness Pridemore
Note: Sacre, Candace Okay, to start with?

10:58:13 AM Chairman Schmitt - witness Pridemore
Note: Sacre, Candace Okay, I didn't understand, so it may be a, guesstimate on your part, that they were applying to RD to get the money to fund this project, whether Phase 1, 2, or whatever, and even if that had been able to go forward, they would have needed some kind of interim financing such as through Kentucky Rural Water Finance Corporation, like a bridge loan, something to get the money, and then, ultimately, when the RD loan was approved, it would provide the money and pay off whatever Hyden-Leslie would have owed to Kentucky Rural Water Finance Corporation. Is that something like that?

10:59:56 AM Chairman Schmitt - witness Pridemore
Note: Sacre, Candace And that leads into, I guess, the whole point of much of this inquiry was apparently the loan or assistance agreement with Kentucky Rural Water Finance Corporation may have been for a couple of years, and then about time for it to expire in maybe 2016, do you know if they came back to Rural Development at that time to try to obtain financing then to take over or pay off this Kentucky Rural Water Finance Corporation loan?

11:00:47 AM Chairman Schmitt - witness Pridemore
Note: Sacre, Candace I was just assuming, we assumed that that occurred in '16 and again in 2018, so I don't know, but that was the question, and that was some of the - obviously, you weren't there. What we were trying to understand is what happened that they couldn't get these loans from Rural Development in 2016, 2018?

11:01:52 AM Chairman Schmitt - witness Pridemore
Note: Sacre, Candace I'm sure Mr. Turner or somebody at Hyden-Leslie can explain it, but that was the issue and why you were here, and I'm sorry if we caused you to travel when it, otherwise, might not have been necessary.

11:02:05 AM Chairman Schmitt
Note: Sacre, Candace Mr. Wuetcher?

11:02:06 AM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace I have a few questions.

11:02:08 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace Cross Examination. Mr. Pridemore, I didn't follow completely. Your current position at RD is what?

11:02:25 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace The scope of your work is you're still working with water utilities regarding loans and grants?

11:02:35 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace Let me step back a second. Let's go back to 2013 in your letter. You stated you met with Hyden-Leslie's manager and project engineer in 2013. Do you recall specifically when that was?

11:03:00 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace Let me ask the next question. You clearly remember that the project construction had already started?

11:03:33 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace At that point, they hadn't had that, but they were getting ready to, and that would have prevented the loan?

11:03:43 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace If I represented to you that there was at least a preconstruction conference held in July of 2013 and that the Division of Water had not issued a permit for the project until September of 2013, would that lead you to conclude that this conversation happened sometime during that time period during the summer of 2013?

11:04:27 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace Division of Water did not issue a permit for the project until September 25 th of 2013.

11:04:48 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace If the contractor had been mobilized and had drawn or had completed 55 percent of the project by October, then we're pretty certain that it happened before or during October or when?

11:05:17 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace Now, the project that Staff and Commissioner Schmitt were referring to had some coal severance money involved with it. As far as RD is concerned, when it would be looking at that project, it would be looking at the whole project even if there was coal severance money dedicated to a particular part of the project, is that correct?

11:05:46 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace And you mentioned the traditional method of financing. I just want to make sure I understand. Normally, if a water district or water association, at least in this state and based on your dealings, they will come in and ask for a loan. They will get a letter of conditions. Once they've satisfied those, they will start construction, but they'll get a bridge loan first. Rural Development will buy the bonds, execute whatever bond issuance is needed, and pay off after all the funds in the bridge loan have been exhausted and you're ready to go ahead and make a final payment, essentially, is that correct?

11:06:32 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace Now, are you familiar with any, I guess I'd call it, nontraditional methods? Are there any method where you go out and you - well, let me step back. Under the traditional method, the normal process is you have all your ducks in a row before you start construction, and you've got RD on the line with at least a letter of conditions saying you can go ahead, is that correct?

11:07:02 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace And I assume that, if it's an RD project, you have to review the bids first, is that correct?

11:07:10 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace So, if the bids have already been taken and they've already been accepted by the utility before RD concurrence, does that pose a problem?

11:07:22 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace You don't recall that being the case in what you were told?

11:07:30 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace I'm going to ask because it's in the case record of the prior case, and you may not recall it, and, if so, that's fine. It's been a long time. It's been six years. But there is an email message in the case record of Case No. 2013-00388 from Vernon Brown to Commission Staff, and I'll just note for the record because, at the time, I was employed with the Commission, and the email message is to me, but you were copied on an email message, but Commission Staff had inquired of Mr. Brown as to whether there was any type of assistance agreement or application by Hyden-Leslie regarding this project. (Click on link for continuation of question.)

11:08:42 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace Do you recall Mr. Brown ever - and Mr. Brown was the, for lack of a better term, he was the state director or the senior nonpolitical person for the state office.

11:09:00 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace And so do you recall any inquiry from him to you asking what's going on?

11:09:16 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace Since you're familiar, since you're continuing to do what you did when you were down at the Hazard office, you're very familiar with the RD regulations. You had mentioned before about refinancing, and I just wanted to kinda get that. If the District, after having taken out a short-term note to finance the project and had completed construction, it could go ahead and go back to RD later on and try to roll in the cost of refinancing this project into another project, is that correct?

11:09:52 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace But there's a restriction on that, and that is, as I understand it, the refinancing has to be secondary to the proposed project?

11:10:03 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace And I'm going to refer to you, I think I've got this citation right, 7 CFR, Section 1780.9, which talks about eligible loan and grant purposes. Are you familiar with it, or does that at least sound close?

11:10:25 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace The term "secondary" is in there regarding refinancing, is that correct?

11:10:31 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace You mentioned a 50 percent figure, so does that mean that unless 50 percent of the cost of the total project - let me start over again. Does that mean that to be secondary the refinancing has to be less than 50 percent of the cost of the total project loans and grants or just 50 percent of the total loan that's being requested?

11:11:07 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace To Mr. Hollinsworth?

11:11:11 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace The 50 percent rule that we're talking about, was that in effect back in 2013, to the extent you know, or the interpretation of secondary being 50 percent or less than 50 percent?

11:11:37 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace How common is it to take an earlier project and refinance that cost with another project?

11:11:58 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace If you were advising a system that was coming in and they were looking at their options and they wanted to do something quickly and they came to you and said, "How about we just get a short-term loan and then go back and refinance long term through RD?," you would suggest that that might be a little risky?

11:13:07 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace The secondary rule or interpretation of secondary is less than 50 percent, would that be something that would be known by persons outside of Rural Development that are working in the funding area, for example, people with the ADD District or engineering firms that are constantly working on RD projects?

11:13:38 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace It's not something that is - you're not aware of any changes in that interpretation? This isn't a recent change, is it?

11:14:08 AM Atty Wuetcher Hyden-Leslie District - witness Pridemore
Note: Sacre, Candace Using that risk analysis that we talked about a little earlier, the closer you get to the 50 percent the greater the risk that RD is going to say it can't be included in the new project?

11:14:24 AM	Atty Wuetcher Hyden-Leslie District - witness Pridemore Note: Sacre, Candace	Are there any other requirements besides the secondary requirement?
11:14:32 AM	Atty Wuetcher Hyden-Leslie District - witness Pridemore Note: Sacre, Candace	To do the refinancing, is there a requirement, for example, that RD has to be a creditor of last resort?
11:15:08 AM	Atty Wuetcher Hyden-Leslie District - witness Pridemore Note: Sacre, Candace	Does that then pose a problem? For example, in Kentucky, we've got the Kentucky Rural Water Finance Corp, so they're out there as a - I don't want to say they're a competitor of Rural Development, but they're a supplement to Rural Development, does that mean that because they exist out there and can supply somewhat low-interest loans, maybe not as low as RD, does that mean that it's more difficult for someone who wants to refinance to come back to RD; that you'll instead, show them - not show them the door but say, "You can get this loan or refinancing from Kentucky Rural Water Finance Corp"?
11:16:08 AM	Atty Wuetcher Hyden-Leslie District - witness Pridemore Note: Sacre, Candace	One final question, if Mr. Hollinsworth is called to the stand, would you suggest that I ask him those questions also, that he might have a different interpretation?
11:16:20 AM	Atty Wuetcher Hyden-Leslie District - witness Pridemore Note: Sacre, Candace	Have more experience?
11:16:22 AM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	Thank you, sir. that's all I have.
11:16:24 AM	Chairman Schmitt Note: Sacre, Candace	Thank you. Anything furthter?
11:16:25 AM	Staff Atty Koenig PSC Note: Sacre, Candace	No further questions.
11:16:26 AM	Chairman Schmitt Note: Sacre, Candace	Commissioner Mathews?
11:16:27 AM	Chairman Schmitt Note: Sacre, Candace	May this witness be excused?
11:16:28 AM	Staff Atty Koenig PSC Note: Sacre, Candace	Yes, sir.
11:16:29 AM	Chairman Schmitt Note: Sacre, Candace	You may step down. Thank you, Mr. Pridemore.
11:16:32 AM	Chairman Schmitt Note: Sacre, Candace	Do you have another witness?
11:16:34 AM	Staff Atty Koenig PSC Note: Sacre, Candace	I do. I'd like to call Mr. Hollinsworth to the stand, but could I request a five-minute or ten-minute break.
11:16:45 AM	Chairman Schmitt Note: Sacre, Candace	We'll be in recess until 11:30. At that time, Mr. Hollisworth can testify.
11:16:56 AM	Session Paused	
11:29:41 AM	Session Resumed	
11:29:42 AM	Chairman Schmitt Note: Sacre, Candace	We're back on the record.
11:29:45 AM	Staff Atty Koenig PSC Note: Sacre, Candace	I'm sorry, Mr. Hollinsworth. We were just told that the Judge-Executive has a scheduling issue, and if it's okay with you, we're going to go ahead and call him before you. I apologize for that.
11:30:00 AM	Staff Atty Koenig PSC Note: Sacre, Candace	And so, Chairman, we'd like to call Judge-Executive Lewis.

11:30:20 AM	Chairman Schmitt Note: Sacre, Candace	Witness is sworn.
11:30:30 AM	Chairman Schmitt Note: Sacre, Candace	Ms. Koenig?
11:30:36 AM	Staff Atty Koenig PSC - witness Lewis Note: Sacre, Candace	Direct Examination. Good morning, Judge Lewis. Thank you for being here today. Could you please state your name and business address for the record?
11:30:55 AM	Staff Atty Koenig PSC - witness Lewis Note: Sacre, Candace	And your position is County Judge-Executive for Leslie County?
11:31:06 AM	Staff Atty Koenig PSC - witness Lewis Note: Sacre, Candace	What previous positions have you held, or what is your professional experience?
11:31:43 AM	Staff Atty Koenig PSC - witness Lewis Note: Sacre, Candace	What's your educational background?
11:31:53 AM	Staff Atty Koenig PSC - witness Lewis Note: Sacre, Candace	And what is your interaction with Hyden-Leslie Water District? What has that been?
11:32:30 AM	Staff Atty Koenig PSC - witness Lewis Note: Sacre, Candace	Do you attend the water board meetings?
11:32:37 AM	Staff Atty Koenig PSC - witness Lewis Note: Sacre, Candace	So you haven't spoken with any of the board members?
11:33:14 AM	Staff Atty Koenig PSC - witness Lewis Note: Sacre, Candace	Did you know that the Water District was in financial trouble?
11:33:23 AM	Staff Atty Koenig PSC - witness Lewis Note: Sacre, Candace	When did you become aware of that?
11:33:34 AM	Staff Atty Koenig PSC - witness Lewis Note: Sacre, Candace	January 2019?
11:33:37 AM	Staff Atty Koenig PSC - witness Lewis Note: Sacre, Candace	And is that because the manager and the chairman of the board of commissioners came to see you? Did they come to make you aware of that? Is that why?
11:34:17 AM	Staff Atty Koenig PSC - witness Lewis Note: Sacre, Candace	So you had concerns before they came to see you?
11:34:21 AM	Staff Atty Koenig PSC - witness Lewis Note: Sacre, Candace	And what kind of documents were you reviewing with the county attorney that gave you pause?
11:34:48 AM	Staff Atty Koenig PSC - witness Lewis Note: Sacre, Candace	Meaning that the person serving as judge-executive would replace them or would appoint them at some point?
11:34:59 AM	Staff Atty Koenig PSC - witness Lewis Note: Sacre, Candace	So you made yourself familiar with your duties as judge-executive, and that was part of it is appointing water commissioners?
11:35:07 AM	Staff Atty Koenig PSC - witness Lewis Note: Sacre, Candace	What was concerning about that?
11:35:47 AM	Staff Atty Koenig PSC - witness Lewis Note: Sacre, Candace	And you are referring to the 2013-2014 CBCM project, the Phase 1 of the activity that we're talking about at issue here, is that correct?
11:36:06 AM	Staff Atty Koenig PSC - witness Lewis Note: Sacre, Candace	Did you talk to Mr. Turner and Mr. Roberts when they came to you? Is that what you talked to them about?
11:36:41 AM	Staff Atty Koenig PSC - witness Lewis Note: Sacre, Candace	And was part of that discussion the community block grant that Ms. Bridwell testified about?

11:37:21 AM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace So you're saying that the block grant was to pay for something different than the 2014 construction? Is that what you're trying to say?

11:37:42 AM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace And this community block grant was for the county? Is that correct? I'm trying to understand.

11:37:50 AM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace And that was under your authorization, if you would have signed - so did you put together the application for the block grant, or did the Water District?

11:38:06 AM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace Do you know how much that block grant was for?

11:38:28 AM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace Was it for a million dollars? Was that the amount?

11:38:40 AM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace And so somebody else put the application together, is that correct? You didn't?

11:38:50 AM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace Then when it came to you - or did it come to you for approval?

11:39:30 AM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace I understand.

11:40:50 AM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace So you would have signed it, but you missed the deadline? Is that what you're trying to say, and you didn't know there was a deadline, or - but you said you had trouble with the loans, and you had trouble with this grant? The grant, they wouldn't have had to pay back, correct?

11:41:07 AM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace Okay, but you hadn't signed it, and you left the meeting thinking you didn't have a deadline to sign it? Is that what you're saying?

11:42:48 AM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace Did you suggest they come in for a rate case to increase their revenue?

11:43:07 AM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace Did you give them any opinion on rate increases or -

11:43:46 AM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace You knew they would have to raise their rates?

11:43:49 AM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace Because they were operating in the red, so to speak, and you knew that, correct?

11:43:58 AM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace That was part of your concern about having the loans, and you knew about their financial trouble?

11:44:13 AM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace So what happened with the block grant? Do you know what happened? You said you weren't aware there was a deadline, but they pulled back that invitation, or they don't have those funds anymore? Is that what happened? The grant's gone away?

11:46:30 AM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace You don't attend the water board meetings, and you haven't advised the water board or Mr. Turner as far as your objection to a rate increase or a rate case? Is that your testimony?

11:47:10 AM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace I understand. I'm not implying that you should have, and your only role as far as the water board commissioners are to appoint when there's a vacancy, is that correct?

11:47:27 AM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace In your capacity as judge-executive?

11:47:31 AM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace But you haven't implied to the board or anything that they might be removed or anything like that if they would apply for a rate increase? Is that my understanding because -

11:47:48 AM Staff Atty Koenig PSC
Note: Sacre, Candace Thank you for being here. I have no further questions.

11:47:52 AM Chairman Schmitt
Note: Sacre, Candace Commissioner Mathews?

11:47:53 AM Commissioner Mathews
Note: Sacre, Candace I have no questions.

11:47:55 AM Chairman Schmitt - witness Lewis
Note: Sacre, Candace Examination. Judge, just a few questions. You took office, when? January of 2019, correct?

11:48:06 AM Chairman Schmitt - witness Lewis
Note: Sacre, Candace And, before that, you were on the fiscal court up through when? Sometime in the last '90s?

11:48:26 AM Chairman Schmitt - witness Lewis
Note: Sacre, Candace So you had a long gap there from the time you left the fiscal court to the time you became county judge, correct?

11:48:33 AM Chairman Schmitt - witness Lewis
Note: Sacre, Candace What did you do in the interim?

11:48:46 AM Chairman Schmitt - witness Lewis
Note: Sacre, Candace I hate to ask because he was always a friend mine. Are you related in any way to Philip Lewis?

11:49:06 AM Chairman Schmitt - witness Lewis
Note: Sacre, Candace I've known Philip for 40 years or better, I guess. Is he still practicing, or is he retired?

11:49:17 AM Chairman Schmitt - witness Lewis
Note: Sacre, Candace He used to be the county attorney. Is he the county attorney now?

11:49:36 AM Chairman Schmitt - witness Lewis
Note: Sacre, Candace I'm from Paintsville. I practiced law over there for years and years and years.

11:49:45 AM Chairman Schmitt - witness Lewis
Note: Sacre, Candace I'm trying to understand the issue. I guess when you became county judge, you had some concerns about the stability of the Water District. Would that be fair to say?

11:49:59 AM Chairman Schmitt - witness Lewis
Note: Sacre, Candace And I'm guessing here, so correct me if I'm wrong, but, based on what you said, you had a feeling that maybe they had extended themselves with the loan in 2013 or something. Maybe the project shouldn't have been done or it was. They couldn't get the loan replaced. They had this loan with Kentucky Rural Water Finance Corporation, and over the period of six years or so, they hadn't been able to replace that with a Rural Development loan?

11:50:35 AM Chairman Schmitt - witness Lewis
Note: Sacre, Candace You knew that, righth?

11:50:38 AM	Chairman Schmitt - witness Lewis Note: Sacre, Candace	And the initial project that the money was borrowed for, Phase 1 or whatever, 1 or 2, I'm not sure, were you for that project? Was that project one that you think was needed or not needed?
11:50:53 AM	Chairman Schmitt - witness Lewis Note: Sacre, Candace	The first one, yes, sir.
11:50:59 AM	Chairman Schmitt - witness Lewis Note: Sacre, Candace	Okay, I wish you would.
11:51:12 AM	Chairman Schmitt - witness Lewis Note: Sacre, Candace	Okay, sure.
11:58:20 AM	Chairman Schmitt - witness Lewis Note: Sacre, Candace	Let me tell you, I looked, I guess, at the 2018 audit, which is the last one, i guess it showed a total long-term debt of \$6,061,300, and I was wondering the same thing, I mean, they're going to borrow another million and a half or whatever it is, which it's up to them, it's not my business, except when you go for ten years and you don't increase rates, it puts you between a rock and a hard place when all of a sudden - you know, Knott County came in here and wanted an 80 percent rate increase.
11:58:51 AM	Chairman Schmitt - witness Lewis Note: Sacre, Candace	And it's hard for the citizens, it's hard for us, it's hard for everybody, it's hard for the commissioners when that happens. If you did a little along, it might be easier.
11:59:03 AM	Chairman Schmitt - witness Lewis Note: Sacre, Candace	But, the block grant, you didn't just pull out of the block grant, you pulled out - you would have signed for the block grant except for the fact there was a deadline you didn't know about, but you still can get that money if you want to?
11:59:32 AM	Chairman Schmitt - witness Lewis Note: Sacre, Candace	Let me ask you this. I know, I guess, the previous county judge, the one you were talking about, you defeated him, I guess, in the election in November of 2018 or the primary in May?
11:59:52 AM	Chairman Schmitt - witness Lewis Note: Sacre, Candace	Now, I think you said, and I can ask maybe Mr. Turner or maybe some of the board members, apparently at some time during the 2013-2014 time period, some of the board members resigned or something, you think, under duress?
12:00:37 PM	Chairman Schmitt - witness Lewis Note: Sacre, Candace	Three left, and two stayed?
12:00:39 PM	Chairman Schmitt - witness Lewis Note: Sacre, Candace	Who were the two - I'm sure they're here, who are the two who stayed?
12:01:53 PM	Chairman Schmitt Note: Sacre, Candace	Thank you. I don't have any further questions. Mr. Wuetcher, do you have any questions?
12:01:57 PM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	Just a couple.
12:01:58 PM	Atty Wuetcher Hyden-Leslie District - witness Lewis Note: Sacre, Candace	Cross Examination. Just focusing on the District as it is today, you've never threatened to remove any commissioners for raising water rates, have you?
12:02:40 PM	Atty Wuetcher Hyden-Leslie District - witness Lewis Note: Sacre, Candace	You would agree with the statement that the Water District should charge rates that are sufficient to cover its expenses and its debt service and meet its bond covenant requirements, assuming those expenses are reasonable expenses?

12:03:05 PM Atty Wuetcher Hyden-Leslie District - witness Lewis
Note: Sacre, Candace That the utility should - its rates should be sufficient to cover its expenses plus meet its debt service requirements and any other requirements in its bond ordinance so it can maintain a good credit rating and have the ability to borrow money?

12:04:02 PM Atty Wuetcher Hyden-Leslie District - witness Lewis
Note: Sacre, Candace Following up on my last question, if the District doesn't have rates to generate enough money to cover its existing expenses and debt service and debt service requirements, you would agree that the District should raise its rates to the appropriate level?

12:04:53 PM Atty Wuetcher Hyden-Leslie District - witness Lewis
Note: Sacre, Candace Okay, and then the District still has before the Commission a request asking for authorization to go ahead and enter into this low-interest loan with KIA. You don't have any objections to that, is that correct?

12:05:19 PM Atty Wuetcher Hyden-Leslie District - witness Lewis
Note: Sacre, Candace And you're aware that the District now is getting ready to file for a rate adjustment?

12:05:36 PM Atty Wuetcher Hyden-Leslie District - witness Lewis
Note: Sacre, Candace You're aware the Commission has ordered them to file a rate case within six months of the end of this case?

12:05:48 PM Atty Wuetcher Hyden-Leslie District - witness Lewis
Note: Sacre, Candace One final question. Are you aware of any government official in Leslie County pressuring the Water District not to raise rates? In other words, telling them or threatening them in any sense to not raise rates?

12:06:13 PM Atty Wuetcher Hyden-Leslie District - witness Lewis
Note: Sacre, Candace Yes, sir, any elected official.

12:06:28 PM Atty Wuetcher Hyden-Leslie District - witness Lewis
Note: Sacre, Candace And I take it you would agree that, when the District tries to raise rates, it needs to go out and explain to everybody why it's raising rates and educate them?

12:07:05 PM Atty Wuetcher Hyden-Leslie District - witness Lewis
Note: Sacre, Candace Your major concern is they should be coming in to the Public Service Commission and raising the rates more frequently instead of doing it in one big swoop?

12:07:46 PM Atty Wuetcher Hyden-Leslie District - witness Lewis
Note: Sacre, Candace Just so we're on the same page, your belief is that the District did not get the coal severance money promised for the Phase 2 project that we talked about?

12:08:02 PM Atty Wuetcher Hyden-Leslie District - witness Lewis
Note: Sacre, Candace The one that went in 2013-2014, yes, sir.

12:08:43 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace That's all I have. Thank you.

12:08:46 PM Chairman Schmitt
Note: Sacre, Candace Anything further?

12:08:48 PM Staff Atty Koenig PSC - witness Lewis
Note: Sacre, Candace Redirect Examination. I just want to clarify, did you say that you don't want them or you don't advise the Water District to proceed with the Phase 3 part of the project? Is that what you're saying?

12:10:12 PM Staff Atty Koenig PSC
Note: Sacre, Candace Okay. Thanks. I just wanted to clarify that. I have no further questions.

12:10:16 PM Chairman Schmitt
Note: Sacre, Candace Commissioner Mathews?

12:10:17 PM Commissioner Mathews - witness Lewis
Note: Sacre, Candace Examination. What is the percentage of residents in Leslie County that have public water or city water, as I would call it?

12:10:38 PM Commissioner Mathews - witness Lewis
Note: Sacre, Candace And so the ten percent that's left is probably not the easy ten percent to serve?

12:10:50 PM Commissioner Mathews
Note: Sacre, Candace Okay.

12:10:52 PM Chairman Schmitt - witness Lewis
Note: Sacre, Candace Examination. And, just to your point, of course, I've got somebody else's bid decision, spending money on new projects, all the time in rates, you've got to be able to keep fixed what's broken on all the system that you've had for years, right?

12:11:35 PM Chairman Schmitt
Note: Sacre, Candace Thank you. Anything, Mr. Wuetcher?

12:11:37 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace No, sir.

12:11:38 PM Chairman Schmitt
Note: Sacre, Candace May Judge Lewis be excused?

12:11:40 PM Staff Atty Koenig PSC
Note: Sacre, Candace Yes, sir.

12:11:41 PM Chairman Schmitt
Note: Sacre, Candace Thank you, Judge Lewis. We appreciate your being here, and you may step down, and you're excused.

12:11:45 PM Chairman Schmitt
Note: Sacre, Candace Okay, maybe we can get another one in.

12:11:47 PM Staff Atty Koenig PSC
Note: Sacre, Candace Yes, can we call Mr. Hollinsworth again? I'm sorry.

12:12:04 PM Chairman Schmitt
Note: Sacre, Candace Witness is sworn.

12:12:15 PM Staff Atty Koenig PSC - witness Hollinsworth
Note: Sacre, Candace Direct Examination. Hello, Mr. Hollinsworth. Thank you for being here today. Could you please state your name and your business address?

12:12:33 PM Staff Atty Koenig PSC - witness Hollinsworth
Note: Sacre, Candace Could you explain what being a program director at Rural Development what your job duties entail?

12:13:09 PM Staff Atty Koenig PSC - witness Hollinsworth
Note: Sacre, Candace And your educational background is?

12:13:21 PM Staff Atty Koenig PSC - witness Hollinsworth
Note: Sacre, Candace And you were in the hearing room when Mr. Pridemore was testifying, is that correct?

12:13:30 PM Staff Atty Koenig PSC - witness Hollinsworth
Note: Sacre, Candace So Mr. Pridemore left in July of 2015 from the area where Hyden-Leslie District, the area that RD served for that district, so do you have knowledge about this loan or any applications to RD after that?

12:14:20 PM Staff Atty Koenig PSC - witness Hollinsworth
Note: Sacre, Candace And then do you have knowledge - we just needed some clarification on was there an application that was partly filed, or was there something that - Mr. Pridemore said he couldn't - he didn't have enough to even send to his underwriters but alluded to the fact that later on -

12:15:39 PM Staff Atty Koenig PSC - witness Hollinsworth
Note: Sacre, Candace And so then, moving on to Phase 3, so was there somebody else maybe that was a specialist, a field specialist, that was dealing with Hyden-Leslie?

12:17:06 PM Staff Atty Koenig PSC - witness Hollinsworth
Note: Sacre, Candace And the money has not been released to the Water District because they haven't fulfilled the letter of conditions, is that correct?

12:17:13 PM Staff Atty Koenig PSC - witness Hollinsworth
Note: Sacre, Candace And you were in - I'm not sure if it was Mr. Pridemore or Ms. Bridwell, but do you know what conditions the Water District has not fulfilled for Rural Development?

12:20:24 PM Staff Atty Koenig PSC - witness Hollinsworth
Note: Sacre, Candace You were talking about the analysis that you perform when they apply, and you said that they're going through, gathering all of the rest of the infomation, but does anybody at RD do a separate analysis of the District's rates?

12:22:03 PM Staff Atty Koenig PSC - witness Hollinsworth
Note: Sacre, Candace So, when you were talking about short-lived assets, I think, in discussions about the investigation case this summer, the PSC and RD met and kind of compared our analysis that - what RD does when they have a loan, like, such that we approve through an .023 case, but your analysis is different because of the requirements that you have per the federal regulations that you operate under?

12:23:12 PM Staff Atty Koenig PSC - witness Hollinsworth
Note: Sacre, Candace And, meaning that, in a PSC traditional rate case or ARF case, we do figure in full depreciation, is that correct?

12:23:22 PM Staff Atty Koenig PSC - witness Hollinsworth
Note: Sacre, Candace And that would be the difference in a utility raising their rates through only .023 cases such as Hyden-Leslie hasn't been in for a rate case for 40 years, and they've only used .023s to raise their rates, is that your understanding, and so it wouldn't necessarily equate for full depreciation?

12:24:15 PM Staff Atty Koenig PSC - witness Hollinsworth
Note: Sacre, Candace And so have you dealt with Hyden-Leslie Water District in the situation that you're talking about, the 2018? Have you been involved in those discussions or conference calls or anything like that?

12:25:17 PM Staff Atty Koenig PSC - witness Hollinsworth
Note: Sacre, Candace And the only red flags that RD had was what you mentioned before as far as not being able to cover debt service, but has anything of their operations or their management or engineering has that been a red flag to you? Have they been able to meet guidelines or get materials you said they're in the middle of gathering?

12:28:16 PM Staff Atty Koenig PSC - witness Hollinsworth
Note: Sacre, Candace And the fact that their revenue wasn't meeting their needs, that was never a red flag because they were going to -

12:28:50 PM Staff Atty Koenig PSC
Note: Sacre, Candace Thank you. I have no further questions.

12:28:53 PM Chairman Schmitt
Note: Sacre, Candace Commissioner Mathews?

12:28:54 PM Commissioner Mathews
Note: Sacre, Candace (Shook head negatively.)

12:28:55 PM Chairman Schmitt - witness Hollinsworth
Note: Sacre, Candace Examination. Do you know how many new customers there were? I was thinking 66, but I could be wrong.

12:29:06 PM Chairman Schmitt - witness Hollinsworth
Note: Sacre, Candace Just for perspective, Mr. Hollinsworth, over the past year, are you familiar with the fact that Public Service Commission Commissioners have met with Rural Development representatives on how to best serve rural water districts and see that the loans go to the right place and that everybody gets paid back?

12:29:20 PM Chairman Schmitt - witness Hollinsworth
Note: Sacre, Candace are you familiar with that?

12:29:30 PM Chairman Schmitt - witness Hollinsworth
Note: Sacre, Candace You were at a meeting with us at one time when we discussed not Hyden-Leslie but water districts in general on what to do, correct?

12:29:38 PM Chairman Schmitt - witness Hollinsworth
Note: Sacre, Candace One of the issues or reasons, one of the impetus for this hearing was essentially the application that came in in early December with a drop-dead date for us of January 24 or something to approve everybody's loans and not enough information as to what the issues were.

12:30:02 PM Chairman Schmitt - witness Hollinsworth
Note: Sacre, Candace But I noticed, in some of the applications, that in this 2013 project, which I think the Judge explained, I don't know if it's correct, as to how, his explanation as to how, it came about that the Kentucky Rural Water Finance Corporation got involved, but that loan was never able to be replaced with an RD loan. Do you know if Hyden-Leslie Water District in 2016 and 2018 or so ever tried to come in and refinance this 2013 project through your all's efforts?

12:33:11 PM Chairman Schmitt - witness Hollinsworth
Note: Sacre, Candace So, in essence, whatever happened in 2013 occurred, there was never any real prospect of being able to refinance that money through Rural Development unless the total loan was so much, more than they obviously needed to complete the next project. Would that be fair?

12:33:39 PM Chairman Schmitt
Note: Sacre, Candace Okay, thank you. I have no further questions. Mr. Wuetcher?

12:33:42 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace Unfortunately, I have several.

12:33:47 PM Chairman Schmitt
Note: Sacre, Candace We've got ten minutes, and then I've got to go.

12:33:55 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace Cross Examination. Good afternoon, Mr. Hollinsworth. Let me try to go over a couple of issues then. First of all, the letter of conditions for the Phase 3 project was issued in December of 2018, is that correct?

12:34:12 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace And is there a time limit on when all of the conditions have to be met?

12:35:24 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace Are you saying there's no definite deadline at this point in time?

12:35:48 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace Absent that, if there were some change, let's say, for example, the national office said, "You need to bring in some of your longer letter of conditions that are out there waiting," would the District get a warning in terms of getting things done?

12:36:14 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace Let me go on. One point I wanted to ask about, RD has developed rates, minimum rates, that it set forth in the letter of conditions, and you stated that that was assuming that the existing note to Kentucky Rural Water Finance Corp had been turned over or refinanced by a 30-year loan with Kentucky Rural Finance at four percent interest, is that correct?

12:36:48 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace At this point in time, the rates that are in that letter, assuming that that Rural Water loan at four percent interest was replaced with a KIA loan at point-five percent interest, the rates would not have to go upward, at least as far as you all are concerned, assuming everything else is equal?

12:38:03 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace The rates will have to be reworked if they get any more debt?

12:38:14 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace Would the rates have to be reworked if, say, for example, they are able to refinance some of their older debt with less interest-bearing loans?

12:38:26 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace Let's go back for a second to refinancing what I call the Phase 2 project which is the 2013-2014 project. You stated that there was no application filed until 2018. Now, would it be correct to say that various documents and attempts to apply for a loan for the Phase 3 project had been submitted earlier but the application actually expired?

12:39:11 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace And let me kinda cut to the chase because I have a copy of a letter that was written by Mr. Barry Turner, and I think Mr. Barry Turner is the area director for your, I guess, for your London office?

12:39:26 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace It's styled "Application for Federal Assistance (Incomplete)," and so he goes back - and this letter is addressed to Augustus Roberts, the chairman of the Hyden-Leslie County Water District, and he states -

12:39:43 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace And I apologize. I only have an electronic copy of this letter, and, once we get to the break, I'll try to have copies made.

12:39:51 PM Chairman Schmitt
Note: Sacre, Candace That'll be fine, yeah.

12:39:53 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace But he states that the project had been - various components had been submitted at various times to Rural Development since 2013, and then he goes on to list what's been submitted over a period of time, including an Application for Federal Assistance form dated July 13, 2016, so recognizing your testimony, you have not seen this letter?

12:40:17 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace So would you agree, since we don't have time to produce it in the next five minutes, but if you saw that letter, would you be willing to state that there might be other documents out there that would suggest an earlier filing that is not part of the records that you've been able to review?

12:40:46 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace And just so we're on the same sheet of music, when you say application, you're referring to an application that meets all of the requirements so that it can be considered accepted?

12:40:57 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace Now, if they submit something in part or in parcel that doesn't meet those requirements, even though they've tendered it to Rural Development, you would not consider that to be an application?

12:41:10 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace So it might be a - I don't want to call it a working document, but for the lack of a better - it might be a working document that the District is working on; it's tendered to Rural Development; your London office or your Hazard office might be looking at it, may be providing assistance, but they don't consider it an application yet?

12:41:39 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace At this point, there could be a process going on as early as 2013 up until 2014, 2015, 2016 where Hyden-Leslie is having this communication with Rural Development. Your district office is aware of this, they're providing assistance, but you don't deem it to be an application, and it's not considered an application until they meet all the deadlines?

12:42:04 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace As part of those discussions, would it be - if I submitted to you that, at least as part of those materials coming back and forth, a proposal was made as part of that Phase 3 project to refinance the debt from the Phase 2 project was tendered, would you agree that could be possible in terms of that they had at least made that proposal to RD?

12:42:53 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace Now, if they did it as part of the Phase 3 package where they've got other improvements, it might be considered as part of that package, is that correct, provided it was secondary?

12:43:11 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace And that's where the 50-percent rule comes into effect?

12:43:23 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace If I told you that officials at the London office, Clay McKnight and Barry Turner, actually contacted Hyden-Leslie in - I'm trying to see exactly when it was - in December of 2017 and said, "You cannot do the refinancing because it's not secondary; it's beyond the 50 percent," that would be consistent with RD policy?

12:44:02 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace Well, let me change the date then to April of 2018, so it is possible that the District at least was trying to refinance, but it wasn't part of the application that you subsequently got, that RD got that it accepted and then processed?

12:44:55 PM Chairman Schmitt
Note: Sacre, Candace We'll be in recess until 2:15.

12:45:11 PM Session Paused

2:23:59 PM Session Resumed

2:24:06 PM Chairman Schmitt
Note: Sacre, Candace I want to say this. First, I'm sorry I'm late, but the Secretary for the Energy and Environment Cabinet had a workforce group dedicated to trying to solve Martin County Water District's problems, and it's appropriate I think I say this so you can hear it. I've said publicly and have been quoted a number of times as saying it's the worst water district in the state. There are a lot of others that are not too far from basically sliding into that same category.

2:24:42 PM	Chairman Schmitt Note: Sacre, Candace	So, in any event, there must have been 30 people, and they're still going in the meeting. I had to leave after what I had to say. When we started Martin County's investigation, Greg Heitzman or somebody concluded it would take about \$13.4 million to fix Martin County. Martin County has received \$8 million in federal and state funds. The engineers now estimate that in addition to that \$8 million it will take at least \$50 million to bring that district up to speed.
2:25:16 PM	Chairman Schmitt Note: Sacre, Candace	So all I can say is that managing your district and keeping your infrastructure modernized and replaced on time is worth a lot more money than you know because the time is coming. For Martin, there's no money there.
2:25:33 PM	Chairman Schmitt Note: Sacre, Candace	So, in any event, so much for that. Mr. Wuetcher, would you like to resume your examination of the witness?
2:25:48 PM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	Your Honor, I've gone ahead and distributed the letter that I had referenced before in my questioning of Mr. Hollinsworth, and I have tendered a copy to the court reporter and asked that it be labeled as Applicant Exhibit 1.
2:26:02 PM	Chairman Schmitt Note: Sacre, Candace	The December 27th? Would you like to admit that?
2:26:06 PM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	Well, after I - I've got a few questions for Mr. Hollinsworth.
2:26:10 PM	Atty Wuetcher Hyden-Leslie District - witness Hollinsworth Note: Sacre, Candace	First of all, good afternoon. Have you had a chance to look at this letter?
2:26:21 PM	Atty Wuetcher Hyden-Leslie District - witness Hollinsworth Note: Sacre, Candace	And I realize I just handed it to you about five or ten minutes ago, but I just wanted to go ahead and point out a few things and ask you a few questions. First of all, if you turn to page 2, it is signed by for Barry Turner, and I think you identified before that he is the area director for the London District?
2:26:41 PM	Atty Wuetcher Hyden-Leslie District - witness Hollinsworth Note: Sacre, Candace	And, in the letter, he makes reference to a Clay McKnight. Now, is Mr. McKnight the person you referenced earlier that was actually handling the Phase 3 project at the London office?
2:26:56 PM	Atty Wuetcher Hyden-Leslie District - witness Hollinsworth Note: Sacre, Candace	The letter itself, goes through and lists a number - and I believe you're copied on this, so I guess it's a copy that's sent to the state office?
2:27:12 PM	Atty Wuetcher Hyden-Leslie District - witness Hollinsworth Note: Sacre, Candace	Mr. Turner goes through and lists a number of problems with what had been tendered by the District, and you would agree with that?
2:27:22 PM	Atty Wuetcher Hyden-Leslie District - witness Hollinsworth Note: Sacre, Candace	Would you also agree that he states that there had been components, at least, of the documents filed at least as of 2013?
2:27:58 PM	Atty Wuetcher Hyden-Leslie District - witness Hollinsworth Note: Sacre, Candace	And fair enough. I will not disagree with you on that point, but you would agree that at least in filing these components the District was, perhaps as early as 2013, trying to, in its next project, the Phase 3 project, try to wrap into that some of the funding for the Phase 2 project to try to refinance that?

2:28:36 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace Okay, and I don't want to put words into your mouth. I've tried to before and been unsuccessful, but what I would ask, if you could, if you could confirm something after today's hearing with either Mr. McKnight or Mr. Turner, confirm that there was a meeting between Mr. - I'm sorry, that Mr. McKnight had telephoned Mr. L. J. Turner, the general manager of the District, and had advised him on - our date is April 10, 2018, that the refinancing of a Phase 2 loan could not be funded in the Phase 3 project, the Phase 2 being the project that had been constructed in - or at least being approved in 2013-14 and then constructed some time thereafter.

2:29:57 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace Now, I want to go over that a little bit because I want to confirm something that Mr. Pridemore had talked about earlier today. That 50-percent rule or that interpretation of the language in the regulation, that interpretation has existed for some time prior to 2018?

2:30:49 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace And I have not seen your regulation, but the regulation you're talking about is 7 CFR Section 1780.9, is that correct?

2:31:25 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace Because the language, at least, in the Code, that section that existed as of 2005 found on the internet, had talked about the reference that you said they could not be separate from the project?

2:31:52 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace I can't find my reference, here. I'm sorry. What I should have said was the requirement that the debts being refinanced are a secondary part of the total loan?

2:32:06 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace And that's the language you're referring to?

2:32:08 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace And that language was in the 2005 version of the regulation, so it's been around for at least 15 years?

2:32:22 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace Would that interpretation that RD has on the term "secondary," would that have been known throughout the water industry, at least, in Kentucky, the people that are dealing with RD?

2:32:54 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace In terms of your experience, you kind of can see the statewide Rural Development Financing. In your experience, have you seen very many loans in which the construction was done and refinancing is wrapped into a new project?

2:33:56 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace So, if somebody were pursuing that avenue to finance a project, I used the term "really risky." Would you agree with that?

2:34:21 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace I'm going to shift gears for a moment to a topic that has gotten a lot of attention by the Commission recently, and that's the use of KRS 278.023 by water districts and water associations to raise their rates; they try to get a rate adjustment wrapped up in a Rural Development Finance construction project. You're familiar with the statute?

2:34:46 PM Atty Wuetcher Hyden-Leslie District - witness Hollinsworth
Note: Sacre, Candace I assume you've had a lot of discussions over the years about it?

2:34:51 PM	Atty Wuetcher Hyden-Leslie District - witness Hollinsworth Note: Sacre, Candace	Is it Rural Development's standard practice when it issues a letter of conditions, the rates that are set forth in those letters of conditions, those are minimum rates, is that correct?
2:35:24 PM	Atty Wuetcher Hyden-Leslie District - witness Hollinsworth Note: Sacre, Candace	And I think you had, in response to a question from Staff Counsel, had acknowledged that RD's methodology for setting rates or, at least, setting the rates that are going to be placed in the letter of conditions, differs from PSC's methodology that it uses to establish its rates?
2:36:41 PM	Atty Wuetcher Hyden-Leslie District - witness Hollinsworth Note: Sacre, Candace	Now, given that RD uses a different standard than the Public Service Commission, there is a possibility that the rates that RD deems are sufficient are not going to be deemed sufficient by the Public Service Commission. Would you agree with that?
2:36:59 PM	Atty Wuetcher Hyden-Leslie District - witness Hollinsworth Note: Sacre, Candace	Is there anything, and, I've said, you've looked at KRS 278.023, is there anything in that statute that you're aware of that prohibits the Public Service Commission from coming back and telling the utility in a separate proceeding that "You're rates are too low; raise them?"
2:37:25 PM	Atty Wuetcher Hyden-Leslie District - witness Hollinsworth Note: Sacre, Candace	And that would not violate the letter of conditions that RD publishes or anything in the agreements that RD has with that utility, is that correct?
2:37:54 PM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	I think that's all I have. Again, I apologize for making you have to stay during lunch, but thank you.
2:38:02 PM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	Your Honor, at this time, I would like to ask that Applicant's Exhibit No.1 be made a part of the record of the proceeding.
2:38:08 PM	Chairman Schmitt Note: Sacre, Candace	Any objection?
2:38:09 PM	Chairman Schmitt Note: Sacre, Candace	Sustained.
2:38:10 PM	HYDEN-LESLIE DISTRICT EXHIBIT 1 Note: Sacre, Candace Note: Sacre, Candace	ATTY WUETCHER HYDEN-LESLIE DISTRICT - WITNESS HOLLINSWORTH LETTER FROM BARRY R. TURNER DATED 12/27/2017 APPLICATION FOR FEDERAL ASSISTANCE (INCOMPLETE) WTP/DAM REPAIR
2:38:11 PM	Chairman Schmitt Note: Sacre, Candace	May this witness be excused?
2:38:15 PM	Staff Atty Koenig PSC Note: Sacre, Candace	Yes,
2:38:16 PM	Chairman Schmitt Note: Sacre, Candace	Thank you, Mr. Hollinsworth, you may step down, and you're excused.
2:38:20 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Koenig, do you have another witness you'd like to call?
2:38:23 PM	Staff Atty Koenig PSC Note: Sacre, Candace	Yes, we'd like to call Kristen Millard from Kentucky Rural Water Finance Corporation
2:38:35 PM	Chairman Schmitt Note: Sacre, Candace	Witness is sworn.
2:38:42 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Koenig?

2:38:43 PM Staff Atty Koenig PSC
Note: Sacre, Candace Thank you.

2:38:44 PM Staff Atty Koenig PSC - witness Millard
Note: Sacre, Candace Direct Examination. Good afternoon. Could you please state your name, and could you also spell your last name for the record, please?

2:38:58 PM Staff Atty Koenig PSC - witness Millard
Note: Sacre, Candace And could you state your business address?

2:39:05 PM Staff Atty Koenig PSC - witness Millard
Note: Sacre, Candace And could you explain where you work and your role?

2:39:16 PM Staff Atty Koenig PSC - witness Millard
Note: Sacre, Candace What is your role with Kentucky Rural Finance Corporation?

2:39:30 PM Staff Atty Koenig PSC - witness Millard
Note: Sacre, Candace And how did you come to interact with Hyden-Leslie Water District?

2:41:04 PM Staff Atty Koenig PSC - witness Millard
Note: Sacre, Candace You've been in the hearing room this morning, and you've heard testimony, the first given by Mr. Pridemore, about this window you're taking about when you were contacted about short-term financing, and your belief was that the engineer and the Water District were working on long-term lending with RD?

2:41:29 PM Staff Atty Koenig PSC - witness Millard
Note: Sacre, Candace But since Mr. Pridemore's testimony and Mr. Hollinsworth's testimony, does it seem like that they should have already known that that was not going to be a possibility? I mean, Mr. Pridemore mentioned that there would need to be interim lending anyway, but then Mr. Wuetcher was talking about this 50 percent rule for refinancing and refinancing was so rare, so was that already basically doomed from the start?

2:43:51 PM Staff Atty Koenig PSC - witness Millard
Note: Sacre, Candace So we have a few different two-year agreements, right?

2:43:57 PM Staff Atty Koenig PSC - witness Millard
Note: Sacre, Candace And you were involved from 2013 forward, so what was happening that you had to get these extensions, and you had to extend. Is that normal to extend the short-term?

2:46:00 PM Staff Atty Koenig PSC - witness Millard
Note: Sacre, Candace Do you know why they didn't seek a rate increase?

2:46:06 PM Staff Atty Koenig PSC - witness Millard
Note: Sacre, Candace In your interactions with Hyden-Leslie, were there any indications that there were not good communications between the manager and the board or the board and the engineer or vice versa? Were you getting any indications that there was a breakdown?

2:47:00 PM Staff Atty Koenig PSC - witness Millard
Note: Sacre, Candace How often were you communicating with them? And it's not just when the agreement's up, right? You are continually communicating with the water district when you have this agreement?

2:47:15 PM Staff Atty Koenig PSC - witness Millard
Note: Sacre, Candace Okay, so about every six months, or just six months prior to the -

2:47:42 PM Staff Atty Koenig PSC - witness Millard
Note: Sacre, Candace Okay, so but, bottom line in 2013, you knew there needed to be a rate increase?

2:47:47 PM Staff Atty Koenig PSC - witness Millard
Note: Sacre, Candace And you communicated that with the Water District? They knew that?

2:47:53 PM	Staff Atty Koenig PSC - witness Millard Note: Sacre, Candace	Did you differentiate between whether that rate increase came through a CPC and a loan or a traditional route?
2:48:19 PM	Staff Atty Koenig PSC - witness Millard Note: Sacre, Candace	Were you aware that the Water District was involved in the investigation case this summer?
2:48:29 PM	Staff Atty Koenig PSC - witness Millard Note: Sacre, Candace	They didn't discuss with you afterwards any type of order that they were under, what they needed to do?
2:48:36 PM	Staff Atty Koenig PSC Note: Sacre, Candace	Thank you. I have no further questions.
2:48:37 PM	Chairman Schmitt Note: Sacre, Candace	Commissioner Mathews?
2:48:39 PM	Commissioner Mathews Note: Sacre, Candace	No questions.
2:48:40 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	Let me see if I understand this correctly. Initially, around 2013, Kentucky Rural Water Finance Corporation loaned money to Hyden-Leslie Water District with the understanding or the belief that this was a short-term note that, ultimately, the project would be funded by a Rural Development loan which would come in and pay off what you thought at the time would be a bridge loan?
2:49:19 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	And that didn't happen?
2:49:22 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	Now, obviously, at some point in time, you realized that this RD loan wasn't coming to fruition, wasn't going to be made, and so what, if anything, did you all do or Kentucky Rural Water Finance Corporation do when you understood, you know, they're working to get this RD loan, and it never happened? I know you said you had no choice. The issue is either refinance, do another note, or default, correct?
2:49:58 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	What are the implications of default to the Kentucky Rural Water Finance Corporation? Could you, for the record, tell us what that would be?
2:50:55 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	By that, you mean that the ability to obtain financing or other water districts' ability to obtain financing might be adversely affected because either (a) financing might not be possible for them or, if it was, the interest rate they had to pay would be much higher?
2:51:30 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	Now, at some point then, maybe 2016 or so, these dates are confusing to me, the note comes due, two years are up, and so are you expecting at this time that Hyden-Leslie Water District is once again working to try to get refinancing or some kind of a loan through U. S. Department of Agriculture Rural Development?
2:52:41 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	Whatever Hyden-Leslie Water District was required to do to get other financing from any source, it never happened?
2:52:52 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	Now, you indicated, I think, that there was a possibility that long-term financing could be arranged through Kentucky Rural Water Financing Corporation, correct?
2:53:06 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	Was that option ever explored with Hyden-Leslie Water District?

2:53:40 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	And the coverage ratio of 1.20x was required so that someone could be assured they could repay this loan, is that correct?
2:53:48 PM	Chairman Schmitt Note: Sacre, Candace	While continuing to operate in some manner as a viable water district?
2:53:55 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	So 2016, nothing happens; the Water District was unable to secure other financing; and so we get to 2018, and what happens then?
2:54:43 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	I don't know if Kentucky Rural Water Finance Corporation or Raymond James or anybody does any research about any of the water districts that apply for loans, but did anybody ever check to see when the last time Hyden-Leslie Water District had had a rate increase and through what process?
2:55:50 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	It takes just a little more time than they had though, right?
2:55:55 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	The reason I say this, I think that the last rate increase that I saw Hyden-Leslie had was through an .023 loan in 2010. Our records indicate we have no record to indicate they were ever in here, from the history of the Water District forward, and so all of their rate increases were by borrowing money from somebody and what additional amounts were included in the loan to take care of operations.
2:56:25 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	So, ultimately, we get to the thing, I guess, that led to this hearing, was the filing by Hyden-Leslie of this Application and then later an Amended Application where they asked that we approve, I guess, a note because it was now going to be beyond six years; the statute wouldn't allow them to continue to borrow money per this note on this loan unless we approved and to approve an RD, to approve that, and to approve the Kentucky Infrastructure loan, and everything had to be done by January 24.
2:57:05 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	So what was the urgency about of January 24 or some time period about getting approval from the Public Service Commission for this new note?
2:58:01 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	And, for the record, at the time, apparently, we had set a hearing, this hearing, for February 5 sometime back in January, correct?
2:58:10 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	And just so the record will know and Mr. Wuetcher will know, Gary Larrimore called me concerned that there would be a default, and he asked if you and bond counsel come and speak to tell us why we ought to approve this on an emergency basis, is that correct?
2:58:27 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	Now, what did you tell us?
2:59:39 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	And, based upon receipt of that information, the Public Service Commission entered an Order before this hearing allowing the refinancing so that Hyden-Leslie would not incur a default and the Kentucky Rural Water Finance Corporation would not incur a default, correct?

3:00:03 PM Chairman Schmitt - witness Millard
Note: Sacre, Candace I just wanted to make sure the record was clear on that, so, ultimately, were bonds sold, was an agreement reached, was the new loan executed and so forth?

3:00:46 PM Chairman Schmitt - witness Millard
Note: Sacre, Candace In terms of your profession in dealing with this situation with Hyden-Leslie, did you find it frustrating?

3:00:58 PM Chairman Schmitt - witness Millard
Note: Sacre, Candace Scary? Risky?

3:01:03 PM Chairman Schmitt
Note: Sacre, Candace I don't have any further questions.

3:01:05 PM Chairman Schmitt
Note: Sacre, Candace Mr. Wuetcher?

3:01:07 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace Just a few, Your Honor.

3:01:08 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace Just for the record, there was a general rate adjustment filed by Hyden-Leslie back in 1978 in Case No. 4442.

3:01:17 PM Chairman Schmitt
Note: Sacre, Candace Well, let me tell you why we said that, I just relied on counsel, our records only go back that we keep to 1985, and so I was using 1985, but I think Ms. Koenig or somebody couldn't find or maybe as a result in the other case we couldn't find any evidence they had ever had, so 197-?

3:01:36 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace 1978, and the only way that I could find that because I don't have access to your index cards any more since we're no longer employed here, but the old tariffs indicated there was a rate change in 1978. It's still a long time.

3:01:55 PM Chairman Schmitt
Note: Sacre, Candace I appreciate it because I feel a lot better. It was 52 years, and now it's only 42 years, and that makes a big difference.

3:02:02 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace Well, that cuts it down 20 percent.

3:02:07 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace One other point, and that is just the Application that was filed, it did ask for, on a short notice, that the Commission approve the issuance of the two-year note, originally a one-year note then a two-year note, to Kentucky Rural Water Finance Corp, but the Application made clear that it was not trying to get the Commission to review the entire requested relief, which would be the approval of the KIA note.

3:02:37 PM Chairman Schmitt
Note: Sacre, Candace I understand, and I want to say, when we saw all of this and it requested that it be issued without a hearing, and we thought, well we probably ought to get a hearing, we would have given you a hearing before the end of January, but we didn't have any times when we could have done it, so I understand.

3:02:50 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace No, I understand that, Your Honor, and, to be quite candid with you, I had expected, once this was filed and after the initial review, that you were going to have a hearing, and, perhaps, I guess, on our part, we should have gone ahead and made greater contact with your Executive Director and said, "We know this might be a sensitive matter," and we did try to make some contact with your Executive Director and General Counsel to let them know, so -

3:03:16 PM	Commissioner Mathews Note: Sacre, Candace	The Chairman really likes hearings.
3:03:20 PM	Chairman Schmitt Note: Sacre, Candace	Anybody who's a lawyer in the room knows that, if you have to rely upon data requests for information, you only get about ten percent. Every answer raises five or six more questions. But that's correct. I think hearings are essential to obtain information, hopefully, for everybody's benefit, but, anyway, thank you, Mr. Wuetcher. I appreciate your telling me that because we didn't know that there'd ever been a rate case.
3:03:51 PM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	Well, as I said, it's been a long time ago.
3:03:54 PM	Atty Wuetcher Hyden-Leslie District - witness Millard Note: Sacre, Candace	Cross Examination. Ms. Millard, good afternoon. A couple of basic questions. In these transactions, who exactly are you representing? The Kentucky Rural Water Finance Corp or the utility?
3:04:15 PM	Atty Wuetcher Hyden-Leslie District - witness Millard Note: Sacre, Candace	I want to go back to the first issuance. First of all, that was a two-year note, is that correct? I use the term two-year note, but it's actually an assistance agreement, is that right?
3:04:33 PM	Atty Wuetcher Hyden-Leslie District - witness Millard Note: Sacre, Candace	Since two-year notes are not subject to any type of requirement for PSC authorization, is there any reason why Commission authorization was sought?
3:05:02 PM	Atty Wuetcher Hyden-Leslie District - witness Millard Note: Sacre, Candace	The Application asked for approval of the certificate and the financing, and that was granted. But is it the general practice where there's a two-year note that normally you don't seek PSC approval because it's not required by the statute?
3:05:25 PM	Atty Wuetcher Hyden-Leslie District - witness Millard Note: Sacre, Candace	So you viewed it as, since they were both interlinked, it was better to go ahead and place both before the PSC?
3:05:41 PM	Atty Wuetcher Hyden-Leslie District - witness Millard Note: Sacre, Candace	And let me ask on that because I notice, with quite a bit of envy, that your bond counsel appears to represent a number of utilities where there's a Kentucky Rural Water Finance Corp issuance involved. Is that part of the package that the utility gets when they do the bond is the bond counsel is provided by the Kentucky Rural Water Finance Corp?
3:06:25 PM	Atty Wuetcher Hyden-Leslie District - witness Millard Note: Sacre, Candace	And, the PSC aspect of it, is that part of the bond package in terms of the cost which will be wrapped into the issuance? But Rubin & Hays' representation, is that arranged by the Rural Water Finance Corp, or is that something where the utility has a default; they can say they want somebody else, but primarily they'll just take your all's standard attorney?
3:07:11 PM	Atty Wuetcher Hyden-Leslie District - witness Millard Note: Sacre, Candace	Now, you stated, for the 2013-2014 issuance, you were contacted by the engineer and the Water District manager, is that correct?
3:07:22 PM	Atty Wuetcher Hyden-Leslie District - witness Millard Note: Sacre, Candace	Did you have contact with anyone else besides those two individuals from the Water District?

3:07:31 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace Was there any representative of either Raymond James or of Kentucky Rural Water Finance that went out and attended one of the board meetings or met with any of the Water District commissoners?

3:07:59 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace You mentioned or, at least, I interpreted your response to some of the questions that there was a need for a quick response in this case, that bids had already been taken?

3:08:12 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace Do you recall or do your notes indicate when you were actually approached by Hyden-Leslie for assistance in getting this note?

3:08:42 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace The actual approval of the notes by the PSC, the issuance of the certificate, didn't occur until February of 2014, is that correct?

3:09:04 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace You stated that the District was informed that it needed to go ahead and have a rate adjustment at some point after this two-year note was issued in order to plan for permanent financing?

3:09:21 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace Who was that information passed on to?

3:09:33 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace When you had the first rollover in 2016, first of all, at that point in time, was there every any consideration in going to the Public Service to get approval of the financing?

3:09:54 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace And, again, who did you speak with regarding the rollover? Did you approach Hyden-Leslie, or did Hyden-Leslie approach you and say, "It's coming up; we need to go ahead and make arrangements to re-fund this note?"

3:10:24 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace At that time, was it again emphasized that the District needed to have a rate increase?

3:10:39 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace And, again, just to go back, other than Mr. Maggard, did you have any other contacts with the Water District?

3:11:12 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace And I wanted to start to talk about that because, obviously, after the '16, the note had been rolled over once, so when it came due in 2018, you had four years now on this funding. I assume there was a greater concern on the part of Kentucky Rural Water Finance in terms of what was going on. You stated that you were being told that there was project that was available. Was there any independent confirmation made by Kentucky Rural Water Finance that there was a project out there, that one was pending before Rural Development?

3:12:09 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace And did the District indicate to you that they thought that they were getting close; that they were - at some point during the next year term, they were going to go ahead and roll everything over into an RD loan or some other type of financing?

3:12:58 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace Well, let me step back. In 2016, had the District said to you, "We got funding arranged" or "We're close to it," or was there their response, basically, "We're still working on this; we don't have anything?"

3:13:34 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace When the 2016 note was issued, was there provision made for - and I don't want to use the word "call" because I've already been corrected on the use of that term, but was there some provision made for prepayment so that, if they got funding prior to 2018, they wouldn't incur any type of penalty?

3:14:02 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace Do you know if that was included in the 2016 note?

3:14:09 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace Do you know if they specifically requested that?

3:14:13 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace Mr. Turner was hired by the Water District, I believe, in August of 2017, so, prior to his, did you have any interaction after the first note with the prior general manager, or was it all done through the engineer?

3:14:41 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace When the note was being renewed at the end of 2017, the 2018 turnover, did the District indicate to you directly that it was getting close to getting financing?

3:15:04 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace Your Honor, may I approach the witness?

3:15:05 PM Chairman Schmitt
Note: Sacre, Candace Yes, you may.

3:15:06 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace I'm going to hand you what is an email message which is actually from - do you know Mr. Juckett?

3:15:15 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace And this email was addressed to you, is it not?

3:15:30 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace And, Your Honor, for purposes of identification, could I have this marked as Applicant Exhibit No. 2?

3:15:38 PM Chairman Schmitt
Note: Sacre, Candace Yes, you may.

3:15:39 PM HYDEN-LESLIE DISTRICT EXHIBIT 2
Note: Sacre, Candace ATTY WUETCHER HYDEN-LESLIE DISTRICT - WITNESS MILLARD
Note: Sacre, Candace EMAIL OF 11/29/2017 JUCKETT TO MILLARD LOAN TO HYDEN-LESLIE

3:15:41 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace Now, this is - Mr. Juckett is doing some work, preparing for the next note, the 2018 note?

3:15:55 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace And, in this note, he's talking about some provisions in the note to ensure that it's payable at any time, so would it be safe to conclude from this that the District was, at least, expressing to you, "We're close; we have a good faith effort; we're going to be able to turn this over?"

3:16:16 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace At any time, did you have any type of suspicion or concern thta the District was not being honest and up front with the Rural Water folks?

3:16:53 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace There was a case that was brought by the District in late 2018 in which the District applied to the PSC for approval of another note, and I guess this was about the time there was discussion about rolling all of this over into a 30-year loan. Do you recall that?

3:17:29 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace Do you recall when the District initially approached Kentucky Rural Water Finance Corp and said, "We want to go ahead and roll into a 30-year bond?"

3:17:59 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace You had mentioned before about coverage, and I guess I need to understand one thing. The request to go ahead and roll over to the 30-year loan would have been about 2019. At that point, is it your understanding they didn't have the 1.2 coverage necessary?

3:18:49 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace And my question is, would they have to meet it before the 30-year bond issuance?

3:19:01 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace I believe I saw in some minutes that actually may be on file with the Public Service Commission in the water loss investigation case there was discussion in April of 2018 about going ahead and going into a 30-year bond or a 30-year note, I'm using the wrong terms, but basically a 30-year assistance agreement with Kentucky Rural Water Finance Corp. If that was to have been implemented, the District would have had to come in for a rate adjustment, is that correct?

3:19:44 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace And was that relayed to the District?

3:19:47 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace Would that have been relayed to Mr. Turner, or would it have been relayed to the engineer, or would it have been relayed - how would it have been -

3:20:02 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace I think the original note said - in the minutes talked about doing this in April 2018 which would have been before Mr. Turner was actually on the Board?

3:20:14 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace Oh, that's right. You were there in April, so I'm sorry. I'm getting my dates confused now.

3:20:23 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace Now, there wasn't, however, a 30-year assistance agreement executed, was there?

3:20:31 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace The interest rate on the 30-year assistance agreement would have been four percent, is that correct?

3:20:49 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace And I recognize, if we were looking at this at a particular moment, you can't really tell until the bonds are issued, but would you be able to provide us with what the interest rate was, let's say, around November of 2018 if you had similar bond issuances?

3:21:09 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace No, I mean, if you could provide us that after.

3:22:03 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace Do you know if that somehow your run was included in the filing that Hyden-Leslie County Water District made when it sought approval of that one-year extension in 2019?

3:22:31 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace And the reason I ask is Hyden-Leslie made a filing with the Commission on December 5, 2018, and it was represented by Rubin & Hays, and it again involved a Kentucky Rural Water Finance Corp loan, and, in the Application, there is a net debt service schedule that is for 40 years, running from January of 2019 to December of 2049 (sic), and I'm just wondering if that somehow maybe inadvertently got in that Application but represented the 40 - what was the note? A 30-year term or a 40-year term for the assistance agreement?

3:23:30 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace The reason I'm asking is, in terms of what the District could have done had it entered into that loan at the end of 2018, early '19, and what it will have to expend if it's able to get the KIA loan to do a comparison to see what the actual cost has been to the District in terms of the delay in getting permanent financing.

3:24:30 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace So it was quite fortuitous for them to actually get this KIA loan instead of going with Kentucky Rural Water Finance?

3:24:40 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace You haven't done any type of calculation to determine what the actual total cost would be to the District with these two turnovers and then going with a 30-year assistance agreement as opposed to the final cost they're going to incur taking all those in under the KIA loan, have you?

3:25:10 PM Atty Wuetcher Hyden-Leslie District - witness Millard
Note: Sacre, Candace I guess the question I'm wondering and I believe the Commission may be wondering is how much cost was it to the District as a result of having this process drawn out and having finally gotten the KIA loan, even though it was drawn out and maybe it was just happenstance, but, by getting the KIA loan, the District actually resulted in savings to its ratepayers because, ultimately, the cost of borrowing that money is going to be less than the other turnovers and then finally using the 30-year assistance agreement?

3:26:39 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace I think that's all I have. Thank you.

3:26:41 PM Chairman Schmitt
Note: Sacre, Candace Ms. Koenig, questions?

3:26:43 PM Chairman Schmitt
Note: Sacre, Candace Commissioner Mathews?

3:26:44 PM Chairman Schmitt
Note: Sacre, Candace I just have one, if you could.

3:26:55 PM Chairman Schmitt - witness Millard
Note: Sacre, Candace Examination. During the six, seven years that you all have had the loan or series of two-year notes with Hyden-Leslie Water District, have they made principal payments? They have not paid any on the principal?

3:27:17 PM Chairman Schmitt - witness Millard
Note: Sacre, Candace But they have made interest payments?

3:27:47 PM Chairman Schmitt - witness Millard
Note: Sacre, Candace So, over this six-, seven- year period, Hyden-Leslie has not made any payments on either the principal or the interest, correct?

3:27:56 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	But, over that time, the amount of the money they owe, have owed to Kentucky Rural Water Finance Corporation has gone up because of the interest payments that were borrowed that otherwise would have been made, correct?
3:28:14 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	Ultimately, between 2013-14 and today, how much has the amount of their loan increased as a result of not paying any principal or interest?
3:29:23 PM	Chairman Schmitt - witness Millard Note: Sacre, Candace	Two million eight hundred thousand?
3:29:26 PM	Chairman Schmitt Note: Sacre, Candace	I have no further questions.
3:29:35 PM	Chairman Schmitt Note: Sacre, Candace	Anything, Mr. Wuetcher?
3:29:36 PM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	No, no.
3:29:37 PM	Chairman Schmitt Note: Sacre, Candace	May this witness be excused?
3:29:38 PM	Staff Atty Koenig PSC Note: Sacre, Candace	Yes.
3:29:39 PM	Chairman Schmitt Note: Sacre, Candace	Thank you, Ms. Millard, We appreciate it. You may step down, and you're excused.
3:29:43 PM	Chairman Schmitt Note: Sacre, Candace	Let's see if we can go another half-hour maybe, and then we'll take a ten-minute break. Do you have another witness you'd like to ask?
3:29:50 PM	Staff Atty Koenig PSC Note: Sacre, Candace	Yes, we'd like to call the board chairman, Mr. Roberts.
3:30:07 PM	Chairman Schmitt Note: Sacre, Candace	Witness is sworn.
3:30:20 PM	Chairman Schmitt Note: Sacre, Candace	Go ahead, Mr. Wuetcher
3:30:23 PM	Atty Wuetcher Hyden-Leslie District - witness Roberts Note: Sacre, Candace	Direct Examination. Mr. Roberts, would you state your name and business address?
3:30:29 PM	Atty Wuetcher Hyden-Leslie District - witness Roberts Note: Sacre, Candace	And are you a member of the Hyden-Leslie County Board of Commissioners?
3:30:34 PM	Atty Wuetcher Hyden-Leslie District - witness Roberts Note: Sacre, Candace	How long have you been a member?
3:30:44 PM	Atty Wuetcher Hyden-Leslie District - witness Roberts Note: Sacre, Candace	And what is your occupation?
3:30:48 PM	Atty Wuetcher Hyden-Leslie District - witness Roberts Note: Sacre, Candace	But, prior to retirement, what was your occupation?
3:30:55 PM	Atty Wuetcher Hyden-Leslie District - witness Roberts Note: Sacre, Candace	And can you briefly describe for us your educational background?
3:31:03 PM	Atty Wuetcher Hyden-Leslie District - witness Roberts Note: Sacre, Candace	And do you have any type of professional certifications?
3:31:10 PM	Atty Wuetcher Hyden-Leslie District - witness Roberts Note: Sacre, Candace	Well, I take it you don't have any. I mean, for example, you're not a certified waste water operator?

3:31:21 PM Atty Wuetcher Hyden-Leslie District - witness Roberts
Note: Sacre, Candace Do you serve on any governmental boards? Aside from the Water District, do you serve on any governmental boards or any non-governmental groups or entities?

3:31:36 PM Atty Wuetcher Hyden-Leslie District - witness Roberts
Note: Sacre, Candace Are you appearing here today as the result of a subpoena issued to you by Commission Staff?

3:31:41 PM Atty Wuetcher Hyden-Leslie District - witness Roberts
Note: Sacre, Candace Is it correct that you were also expressly directed by the Commission to appear here, at today's hearing, in its Order?

3:31:48 PM Atty Wuetcher Hyden-Leslie District - witness Roberts
Note: Sacre, Candace You've received a copy of the Commission's Order of January 17, 2020?

3:31:53 PM Atty Wuetcher Hyden-Leslie District - witness Roberts
Note: Sacre, Candace And have you read this Order?

3:31:56 PM Atty Wuetcher Hyden-Leslie District - witness Roberts
Note: Sacre, Candace Now, before this hearing this morning, you told me you wanted to make a statement to the Commission. Do you still want to make a statement?

3:32:04 PM Atty Wuetcher Hyden-Leslie District - witness Roberts
Note: Sacre, Candace Please.

3:33:50 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace Your Honor, before I tender the witness over for examination by Staff and the Commission, if I can approach the witness, I'd like to go ahead and hand to him and have this document marked as Applicant Exhibit 3.

3:33:53 PM HYDEN-LESLIE DISTRICT EXHIBIT 3
Note: Sacre, Candace ATTY WUETCHER HYDEN-LESLIE DISTRICT - WITNESS ROBERTS
Note: Sacre, Candace BOARD OF COMMISSIONERS RESOLUTION NO. 13020-02

3:34:32 PM Atty Wuetcher Hyden-Leslie District - witness Roberts
Note: Sacre, Candace I handed to you what's been labeled as Applicant's Exhibit No. 3. You had previously stated in your statement that the board has adopted a Resolution to direct the general manager to take all actions that are necessary to have an Application for a Rate Adjustment filed with the PSC by April 30th. Is that the resolution that you were referring to?

3:35:07 PM Atty Wuetcher Hyden-Leslie District - witness Roberts
Note: Sacre, Candace And this is the Resolution that was adopted at your last board meeting held on January 30, 2020?

3:35:18 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace Tender the witness over for examination by Commission Staff.

3:35:21 PM Chairman Schmitt
Note: Sacre, Candace Ms. Koenig?

3:35:23 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace Cross Examination. Good afternoon, Mr. Roberts. I appreciate your statement that you're committed to reduce water loss, and I'd like to ask you a littel bit about some of the statements that were made earlier today by other witnesses. So you've been around since the first deal that we were talking about, the 2013 agreement, is that correct?

3:35:51 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace And do you recall that project and how that came about?

3:36:02 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace Specifically, did you hear Judge-Executive Lewis' interpretation of what he thought happened when this project was brought about?

3:36:16 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace And could you comment to that? Do you agree with his assessment, or you were there, so could you explain what happened?

3:37:28 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace But do you think he was wrong or right about what he said as far as did the judge offer coal severance money to do it? Is that what it was premised on, or do you recall?

3:37:42 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace Did Mr. Maggard help design this project? I mean, did he bring it to the Water District?

3:37:48 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace You said people were wanting this water? Three hundred customers needed water, so did they approach the Water District, and then Mr. Maggard designed the project for it, or how did that start?

3:38:20 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace When you were brought the project by Mr. Maggard, you all thought you had the funding to do it, or was that discussed, how it was going to be funded?

3:38:52 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace Judge Lewis stated that it was a bad deal. That you got stuck in a bad deal. Do you agree with that statement?

3:39:22 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace But did you know at the time that your rates weren't sufficient?

3:39:28 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace That's 2013, and you've already said you felt like you made a mistake by not coming in for a rate case. Can you -

3:39:56 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace Was there a threat to the commissioners? I mean, when Judge Lewis said that three commissioners were asked to resign or three resigned, and you and another commissioner stayed. Was that over a rate increase, or was it this project?

3:40:15 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace What was it about?

3:40:26 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace But you weren't asked to resign? Were you asked to resign?

3:40:41 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace Was there a disagreement that two of you all agreed with the judge on and three didn't?

3:40:49 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace You don't know what the issue was?

3:40:53 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace So we've talked about there's significant pressure about rate increases, the local pressure, generally. The judge-executive discussed it with the previous judge-executive and the commissioners and stuff, but, in general, rate increases aren't fun, and no one wants a rate increase. But you knew in 2013 you didn't have the funds, and why did it take so long to file a rate case? Why did it take so long to get the funding in? I mean, what was the hold up?

3:41:42 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace Were you aware of an alternative rate filing or the traditional rate filing?

3:41:53 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace Did you attend commissioner training - I'm just curious - with the PSC?

3:42:15 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace I mean, you knew you needed a rate increase, but, on a yearly basis, in general, do you do a rate sufficiency analysis? I mean, I guess you knew that you were dipping into your depreciation funds that whole time, and you talked about it at every meeting, or you didn't?

3:42:51 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace At this point in time, do you know much much is left in your depreciation fund? I mean, you're still operating in the red, is that correct?

3:43:09 PM Staff Atty Koenig PSC - witness Roberts
Note: Sacre, Candace But you don't have an estimate for how long you would have to operate before you're completely out of funds?

3:43:25 PM Staff Atty Koenig PSC
Note: Sacre, Candace I have no further questions.

3:43:27 PM Chairman Schmitt
Note: Sacre, Candace Commissioner Mathews?

3:43:29 PM Commissioner Mathews
Note: Sacre, Candace I don't have any.

3:43:30 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace Examination. Mr. Roberts, let me see if I understand. In 2013, the Hyden-Leslie Water District formulated, with the help of your engineer, Mr. Maggard, a project to expand the system to bring, what you said, about 300 people into the system who needed water, correct?

3:43:57 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace Now, do you know whether or not, prior to the time that you bid the project out, for instance, had you applied for a loan that would pay for the project?

3:44:23 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace I'm asking you, when you started this project, how did you expect to pay for it? How were you going to pay for it, to expand the water system for, what? Two-point-three, -four million dollars? How did you intend to pay for it? I mean, you either had to have a loan, and then you needed some way to pay it back, or you had to have a raise increase. Somehow, you had to have funds to pay the contractor and pay the materials. How were you going to do that?

3:45:15 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace Well, you say you were supposed to. Did you know why you didn't?

3:45:20 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace Who was the chairman then?

3:45:29 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace Who were the three people? Did three people resign at some point? The judge said three people quit. There were five commissioners. Did three people leave the commission?

3:45:46 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace Well, they were on there one day, and then, some time, they weren't?

3:45:52 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace Judge Lewis said they got a letter. Do you know if each of these, any of these three people, got a letter from the judge that said their services weren't needed or he didn't like what they were doing or he was removing them or anything like that?

3:46:09 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace Well, what did your letter say?

3:46:16 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace Just in general terms, as best you can. We're just trying to get a sense of what happened or why these people quit or why you became chairman. I mean, that's all.

3:46:47 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace Who else stayed on other than you?

3:46:52 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace Please give me the names of the three people who quit or were fired, however it was.

3:47:17 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace Well, that's okay. Were these other three -

3:47:31 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace The three people, Mr. Lewis and the other two, can you tell me whether or not they were in favor of extending the water lies to these people?

3:47:47 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace There wasn't any discussion of it or anything?

3:47:53 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace They were in favor of it? I mean, they left for some reason. I know you don't want to say it. I don't know why because it doesn't make much difference other than for us to have some idea what happened or how this whole debacle started in the first place. Obviously, you extended water lines, and you didn't have any money, so you borrowed money from Kentucky Rural Water Finance Corporation. You either intended to do that in the first place and follow up with some other loan or not. I don't know. Do you have any idea how this financing came about, or did somebody handle that for you?

3:48:38 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace Now, your term ends this year, correct?

3:48:54 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace And you came on the board in 2005?

3:49:05 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace And you hadn't been to any training until you became chairman in 2013?

3:49:08 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace The statute provides for payment of either \$3600 or \$6,000 per year for a water district commissioner. Do you get paid?

3:49:19 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace How much do you get?

3:49:24 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace Five hundred a month?

3:49:29 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace How much did you get paid before 2013 when you went to the training?

3:49:35 PM Chairman Schmitt - witness Roberts
Note: Sacre, Candace Three hundred a month?

3:49:37 PM Chairman Schmitt
Note: Sacre, Candace I don't have any further questions. Mr. Weutcher?

3:49:41 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace I have no questions, Your Honor.

3:49:56 PM Chairman Schmitt
Note: Sacre, Candace May Mr. Roberts be excused?

3:49:57 PM Staff Atty Koenig
Note: Sacre, Candace Yes.

3:49:58 PM	Chairman Schmitt Note: Sacre, Candace	You may be excused. Thank you, Mr. Roberts. You may step down.
3:50:01 PM	Chairman Schmitt Note: Sacre, Candace	Okay, let's do one more. Let's go to four o'clock, so if you can get another one, maybe we can go quick here.
3:50:05 PM	Staff Atty Koenig PSC Note: Sacre, Candace	We'd like to call Mr. Maggard.
3:50:15 PM	Chairman Schmitt Note: Sacre, Candace	Witness is sworn.
3:50:22 PM	Chairman Schmitt Note: Sacre, Candace	Please be seated. Mr. Wuetcher?
3:50:25 PM	Atty Wuetcher Hyden-Leslie District - witness Maggard Note: Sacre, Candace	Direct Examination. Good afternoon, Mr. Maggard. Would you please state your name and business address for us?
3:50:39 PM	Atty Wuetcher Hyden-Leslie District - witness Maggard Note: Sacre, Candace	And what is your occupation and profession?
3:50:43 PM	Atty Wuetcher Hyden-Leslie District - witness Maggard Note: Sacre, Candace	And who is your employer?
3:50:49 PM	Atty Wuetcher Hyden-Leslie District - witness Maggard Note: Sacre, Candace	Well, let me ask, what's your position with Sisler-Maggard?
3:50:57 PM	Atty Wuetcher Hyden-Leslie District - witness Maggard Note: Sacre, Candace	And how long have you been associated with Sisler-Maggard?
3:51:05 PM	Atty Wuetcher Hyden-Leslie District - witness Maggard Note: Sacre, Candace	And, just basically, what type of service or business does Sisler-Maggard do?
3:51:16 PM	Atty Wuetcher Hyden-Leslie District - witness Maggard Note: Sacre, Candace	Do you perform or does Sisler-Maggard perform work for PSC-regulated water utilities?
3:51:28 PM	Atty Wuetcher Hyden-Leslie District - witness Maggard Note: Sacre, Candace	Can you tell me some of the PSC-regulated utilities you've performed services for?
3:51:47 PM	Atty Wuetcher Hyden-Leslie District - witness Maggard Note: Sacre, Candace	Briefly, could you describe your educational background for us?
3:51:54 PM	Atty Wuetcher Hyden-Leslie District - witness Maggard Note: Sacre, Candace	And any professional memberships?
3:51:59 PM	Atty Wuetcher Hyden-Leslie District - witness Maggard Note: Sacre, Candace	Are you a licensed professional engineer?
3:52:03 PM	Atty Wuetcher Hyden-Leslie District - witness Maggard Note: Sacre, Candace	Are you a native of Leslie County?
3:52:07 PM	Atty Wuetcher Hyden-Leslie District - witness Maggard Note: Sacre, Candace	How long has Sisler-Maggard provided engineering services for Hyden-Leslie County Water District?
3:52:26 PM	Atty Wuetcher Hyden-Leslie District - witness Maggard Note: Sacre, Candace	So you've been, pretty much, involved with the Water District's operations since 2000? Twenty years?
3:52:35 PM	Atty Wuetcher Hyden-Leslie District - witness Maggard Note: Sacre, Candace	What type of services does Sisler-Maggard provided?
3:52:56 PM	Atty Wuetcher Hyden-Leslie District - witness Maggard Note: Sacre, Candace	So I take it that all of the water projects that have been done by the District since 2000 have been done by Sisler-Maggard?
3:53:06 PM	Atty Wuetcher Hyden-Leslie District - witness Maggard Note: Sacre, Candace	Have you been the primary point of contact for Sisler-Maggard for those projects?

3:53:24 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace In addition to providing engineering services, does Sisler-Maggard provide any other services?

3:53:35 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace When I think of engineering, I think of the design, construction, inspection.

3:53:51 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace Would you be the primary person for any funding issue that the District had?

3:53:58 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace So any effort that the District had from, say, 2000 onward in terms of getting RD funding or any type of other funding, CBDG or Abandoned Mines, you would be the point person for the District?

3:54:12 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace And would you be the person then that - would there be anybody from the District in addition to you that would meet with those funding personnel, or was it primarily you making the contact and then going back to the District and advising them?

3:54:48 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace Primarily, during this time, you were working with Mr. Howard, the former general manager?

3:54:52 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace And then you started working with Mr. Turner back in 2017, is that correct?

3:55:01 PM Atty Wuetcher Hyden-Leslie County
Note: Sacre, Candace That's all the questions I have. I'll tender the witness over to Commission Staff.

3:55:04 PM Chairman Schmitt
Note: Sacre, Candace Ms. Koenig?

3:55:05 PM Staff Atty Koenig PSC
Note: Sacre, Candace Thank you.

3:55:06 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace Cross Examination. Good afternoon, Mr. Maggard. So you mentioned to Mr. Wuetcher that you're not a certified engineer?

3:55:14 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace Okay, so somebody else in your office, when they file the CPC plans, they put their stamp on there?

3:55:23 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace And you said you're in charge of any funding applications that Hyden-Leslie would have made or rate studies related to the funding applications since 2000?

3:55:34 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace So you're familiar with the project at issue here?

3:55:39 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace And you've been involved from the beginning?

3:55:57 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace So the block grant that we discussed with the judge is not your territory?

3:56:08 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace But you and Mr. Roberts are about the only ones left that were around when this first project - when this project first began?

3:56:18 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace And can you speak to what the judge speculated as to the situation on how it got started?

3:56:26 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace You don't know, and you don't know where - so what was the idea of funding it because you put that together though, right?

3:57:45 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace And is that why construction began before you applied for approval at PSC?

3:58:16 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace But, either way, the project had been bid and contract made before you sought funding from RD? You heard that testimony?

3:59:12 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace The climate?

3:59:21 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace Community pressure?

3:59:27 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace To make the line extension?

3:59:41 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace At the hearing in June for the 2019-00041 case, you testified concerning the rates that you take a five-year average of utilities expenses and revenues. How did that play into - you heard Mr. Roberts testify and the other funding agencies testify that you knew that there was a situation with rates in 2013?

4:01:10 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace So you don't think it's that extraordinary?

4:01:20 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace But you're saying you already had the project, you already owed the money, but you're not raising the rates because you're still trying to pursue other means?

4:01:34 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace Did you speak to the board about it and give your opinion on it?

4:01:46 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace But that's 2013, and, as time goes on and on and on, the situation's getting worse and worse, right?

4:01:55 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace Okay, so, again, you talked about that you do a rate assessment for the water utility though, that is true?

4:03:00 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace But you heard Mr. Hollinsworth say that their assessment of depreciation is different from what PSC would assess during the rate -

4:03:21 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace And that's different from long-term depreciation, correct?

4:03:29 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace It's a different process though or a different analysis than the rate analysis that the PSC would do in a rate case?

4:03:41 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace Have you ever been a part of a traditional case?

4:03:45 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace With another water utility?

4:03:50 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace As part of, like, an alternative rate filing or -

4:03:53 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace Do you know why Hyden-Leslie never did a traditional rate case?

4:03:56 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace Did you advocate for that, or was there -

4:04:22 PM Chairman Schmitt
Note: Sacre, Candace Everyone wants to give it away when you're running for office, right?

4:04:27 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace How many projects are you currently working on for the District?

4:04:58 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace And you were involved in the 2019-00041 investigation case, you testified, so, after getting that Order, are some of these - this water loss study, is that a result of the Order that came down in 2019-00041 for Hyden-Leslie?

4:05:18 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace So you're involved?

4:05:24 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace How do you bill the District for your time working?

4:05:42 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace So it's a percentage of the project?

4:05:48 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace So it's, like, limited to a certain window or range for each project?

4:05:55 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace How much time do you estimate that you spend with the District? Like, one day a week, per month, or -

4:06:24 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace Is there anything else you'd like to add to explain that whole situation that would clear up anything for the Commission?

4:06:34 PM Staff Atty Koenig PSC
Note: Sacre, Candace I have no further questions. Thank you very much.

4:06:37 PM Chairman Schmitt
Note: Sacre, Candace Commissioner Mathews?

4:06:38 PM Commissioner Mathews
Note: Sacre, Candace I don't have any.

4:06:39 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace Examination. Mr. Maggard, if I understand, correct me where I go wrong here, the Water District, Hyden-Leslie Water District, in response to requests made by citizens of Leslie County, desired to extend water service to maybe a couple-three hundred customers? You'll have to answer. You can't nod, all right? Otherwise, she just says, "Witness nods," and we don't know whether you went this way or this way.

4:07:17 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace So I take it - this is just an assumption, so correct me if I'm wrong - there was some money available through coal severance tax money, maybe some grants? There was some money there that would begin the project?

4:07:35 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace Then I guess you went through with what you had with - I don't know what the name of the ADD District is. Was it Kentucky River?

4:07:48 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace So the project began, and it began to the extent of getting information and soliciting bids before an application was made to Rural Development for what turned out to be additional money to finish the project?

4:08:07 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace So, if the project cost four million dollars, you could start with, say, just making up, the two million you had, and then you had to borrow the balance from Rural Development or somebody?

4:08:21 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace So, as this is going on, correct me if I'm wrong, you started contacting Rural Development, and, from what their witnesses seemed to indicate, the project had already been bid, and maybe they thought, "Well, we can do this, but you're going to have to hurry up, because, once you get started, at least, on the part where we're loaning the money for, we may not be able to loan you this money," right?

4:08:47 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace So is that what happened, and then, that being the case, you went to Kentucky Rural Water Finance Corporation to see if you could get some kind of loan to finish the project with the idea that you could get long-term financing later to basically pay off that loan at a lower interest rate?

4:09:06 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace Was that the whole idea behind it?

4:09:12 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace Then, apparently, and I'm guessing, and I don't know what you know about after 2014, you've got 2016, 2018, maybe 2019 or '20, where these notes, two-year notes, started coming due. Did you have anything to do with trying to assist the District in getting any long-term financing that would pay off these notes, that would retire the notes, and maybe get a 30-year loan or something?

4:09:45 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace Okay, well, what were you doing? For the record, we need to know what efforts were being made, say, between 2014 and 2016, 2016-2018, who were you working with, and what was going on? I know you weren't successful. We just need to know what you were doing.

4:10:55 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace And, ultimately, a grant was approved in 2018, is that what you're saying?

4:11:15 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace And would that have been for Phase 3?

4:11:49 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace I don't know, so I'm making assumptions. Correct me when I'm wrong. If you were working, say, up through 2016 and then up through 2018 with Rural Development, you had to have - to pay off or retire the Kentucky Rural Finance Corporation bonds or notes, the District had to have another source of money through grants or something other than an RD refinancing loan to do it because you couldn't refinance enough with them, right, to pay off the entire note? Is that the way it was?

4:12:29 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace So the problem was it was a juggling act - you had to get two or three things to come together at the same time in order to pull this off, correct?

4:12:40 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace And that finally has happened at the end of 2019?

4:12:52 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace Now, of course, with the RD loans, as we've heard and you've indicated, basically, the depreciation that they require to be included in a rate increase to secure repayment of their loan, they require short-lived depreciation on short-lived assets or assets up to 15 years, correct?

4:13:25 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace But we know and I know Mr. Wuetcher and I in other cases have had discussions about how long pipe lasts, but whether it's 40 years or 55 years or 75 years, the amount in depreciation to cover replacement of assets, the useful life of which is beyond 15 years, is not included in these RD loans, correct?

4:13:52 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace So that if a district or whoever lives on this loan money and the rate increases provided by it, at some point in time, when long-lived assets like piping in the ground or something has to be replaced, there's not a readily available fund that could have been used to plan and make those replacements, isn't that correct?

4:14:18 PM Chairman Schmitt
Note: Sacre, Candace I don't have any further questions. Mr. Wuetcher?

4:14:20 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace Just a few.

4:14:22 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace Redirect Examination. Let's go back for a second to your responses to a couple of questions of Ms. Koenig. You mentioned that you're familiar with two projects in your past where Rural Development approved and included into another project the refinancing of a loan from a different project. Can you tell us what they were?

4:14:53 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace And do you know when that was?

4:15:13 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace Would it have been done before 2005?

4:15:26 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace You mentioned that you had done a traditional rate study, I guess, submitted to the Public Service Commission. Can you tell us who that was performed for?

4:15:45 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace Do you recall the case numbers for those cases?

4:15:47 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace Do you recall generally what year it was?

4:16:02 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace We'll go back for a second to the Phase 2 project. Is it your understanding that at the time the Commission issued its Certificate that the Water District would have to have a rate increase?

4:16:30 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace Was there any discuss that you can recall from the board where the statements were made in terms of the time? In other words, after the project was completed, did someone say, "Let's go ahead and do the rate adjustment," or was your understanding that no rate adjustment would occur until after the funding had been obtained?

4:17:02 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace Is that because the District was looking for a rate adjustment through the Rural Development statute as opposed to -

4:17:14 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace The clients that you've represented and done rate studies for, do they primarily get their rate adjustments using the alternative rate filing procedure, or do they combine their rate increases with the Rural Development construction project?

4:17:52 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace Okay, so is the answer that most of them then are combined with a Rural Development financing case?

4:18:08 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace Well, you've just said that the rate adjustment -

4:18:24 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace Have the bulk of them been been Rural Development finance, involving the rate increases have invovled Rural Development finance construction projects?

4:18:42 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace How many PSC, for lack of a better term, normal rate applications have you filed since 2000? You mentioned Nicholasville and North Manchester.

4:19:04 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace You say Rattlesnake Ridge. When was that done?

4:19:17 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace And, I'm sorry, you mentioned another one.

4:19:28 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace Do you see any benefits to using the Rural Development finance construction statute as opposed to a normal rate adjustment process?

4:19:42 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace You had mentioned before you did these traditional, for lack of a better term, rate adjusments because the utility needed it right away?

4:19:53 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace What was the Water District's plan in terms of timing for the rate adjustment with the need that you had been told by Ms. Millard and Kentucky Rural Water Finance Corp that you would have to have a rate adjustment? Was it to look to do the normal - I'm not going to say normal, but the PSC KRS 278.180 route with an application, or you were planning to do it through a Rural Development construction finance?

4:20:50 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace You were here when both Mr. Pridemore and Mr. Hollinsworth stated that RD doesn't allow for refinancing where the refinancing amount is more than 50 percent of the amount that's going to be loaned. Were you aware of that when you initially were working on this RD loan back after the Phase 2 project was completed?

4:22:00 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace You heard Mr. Hollinsworth state that there was no application filed until 2018, and you heard the discussion that he and I had about it. Can you elaborate a little bit on that? How long had the District been proceeding with the Phase 3 project?

4:22:46 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace Have you seen the letter that we presented to Mr. Hollinsworth?

4:23:02 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace Let me show you that. You have my only copy, so hold on just a second while I pull up my copy. That letter was issued in December of 2017, so was that the first time that you became aware - oh, I'm sorry, this is the deficiency letter. Was that the first time, in December 2017, that you were aware that the application was deficient?

4:24:35 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace When you got notice, the District got notice, and I assume you were a part of that process in, I guess, April of 2018, that the refinancing couldn't take place because of how Rural Development was interpreting secondary project?

4:25:00 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace And, as I take it, that was a surprise to you?

4:25:14 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace When it was separated out, what was the next step at that point? Because you no longer had RD to refinance, so what was the District looking for?

4:25:43 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace I think I misunderstood you earlier, but you said that you were earlier searching for grants. Was there ever an effort - let me step back, Did I misunderstand what you said where you said you were looking for grant money to use to apply to the loan?

4:26:53 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace Because that's why I'm still not clear. You weren't applying for grant money to pay for the loan that had been taken out for the Phase 2 project?

4:27:03 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace You were, okay, and was part of that funding source from Rural Development or from these other places?

4:27:56 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace One of the questions that - because you were responsible for doing the rate studies, one of the questions that comes up is you're looking for money to repay or refinance the loan taken out for the Phase 2 project, and you're looking to finance the Phase 3 project, but, at the same time, the District was also incurring additional expenses just to operate?

4:28:32 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace Do you recall any discussion, because you obviously had some input from Ms. Millard, saying, "You gotta refinance. You're below your debt service coverage, " what discussion was there that said, "Well, forget about the refinance loan now. We at least need to cover our existing expenses; we need to raise rates?"

4:29:05 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace But wasn't that dependent on - you had three different things that you were looking for then. You were looking to refinance?

4:29:12 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace You were looking to finance a new project, right?

4:29:17 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace Was there any discussion about, number one, let's take care of our immediate need by raising our rates to cover our current cost of service while we're looking to refinance and do this other project?

4:29:34 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace So they were putting all of their balls in one basket?

4:29:40 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace And did they ever ask you for a recommendation regarding whether that was a good policy?

4:29:48 PM Atty Wuetcher Hyden-Leslie District - witness Maggard
Note: Sacre, Candace Since most of this happened, at least, the bulk of it happened under Mr. Howard, did he ever say, "We need a rate increase?"

4:30:15 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace That's all I have. Thank you.

4:30:17 PM Chairman Schmitt
Note: Sacre, Candace Ms. Koenig, anything?

4:30:18 PM Staff Atty Koenig PSC
Note: Sacre, Candace I have a couple of follow-up questions for Mr. Maggard.

4:30:24 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace Recross Examinatin. You performed studies or worked with Rattlesnake Ridge, Big Sandy Water District, North Manchester Water Association, and Hyden-Leslie Water District. Any other of the water utilities that were involved in the investigation that had water loss over 35 percent involving 2019-00041?

4:30:52 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace Are you familiar with the Order, did you read the Order, in 2019-00041, the Final Order in that case that was issued in November?

4:31:02 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace And the water report that was an appendix to that?

4:31:06 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace All of those 1 that were involved in that case were ordered to reevaluate the frequency of their rate case, is that correct?

4:31:16 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace Do you see any connection in these water utilities that you've represented as far as their rates were not covering their operation costs and their expenses? Do you see any connection in the way that they pursued rate increases?

4:32:05 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace There's a lot going on?

4:32:08 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace But, in general, they haven't pursued traditional rate case increases. Is that a recommendation from you? You said that you deal with both kinds, the 50-50 .023 increases versus -

4:32:35 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace But you look at their rates and stuff as part of a study when you do a project?

4:32:45 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace And that's not necessarily all of those? You didn't do loans with all of those?

4:32:54 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace At the time between 2013 and 2018 and these agreements and they had to keep pushing this up, was your firm or the work that your firm did, was it late at any point or were you the cause of them missing any deadlines, Hyden-Leslie Water District?

4:33:13 PM Staff Atty Koenig PSC - witness Maggard
Note: Sacre, Candace And did you notice any operational issues, internal control issues, or communication between the management and the board that was a red flag to you at that time?

4:33:28 PM Staff Atty Koenig PSC
Note: Sacre, Candace Thank you. No further questions.

4:33:31 PM Chairman Schmitt
Note: Sacre, Candace Commissioner Mathews?

4:33:34 PM Commissioner Mathews - witness Maggard
Note: Sacre, Candace Examination. To follow Mr. Wuetcher's line of questioning, for six years or so, you're trying for these other sources of money and doing analyses as you're doing it because you're filling out loan applications, you're not getting the loans, you're not getting the grants, you're losing money, I guess it did not occur to you to give them the advice that "Well, perhaps you need to go in to the Commission since we're not able to get an .023 because we can't get the loan so we can't raise the rates that way?" It didn't occur to you to advise - I mean, it sounds like you're their advisor. You're at the board meetings, and you're working closely with them.

4:34:44 PM Commissioner Mathews - witness Maggard
Note: Sacre, Candace So, during the financial presentations at the board meeting, you're outside, you have your fingers in your ears?

4:35:02 PM Commissioner Mathews - witness Maggard
Note: Sacre, Candace Let's talk about depreciation. What do you think depreciation's for?

4:35:10 PM Commissioner Mathews - witness Maggard
Note: Sacre, Candace So you do these .023 cases, and you're building. Building is good. You get paid when you're building, but there's that gap between the 15-year and short-term assets and the 50-year assets. Eventually, we all get to be 50. I can tell you that because I've about sat here as long as I can. It just seems to me there's some inherent perverse incentives to just keep doing the .023s because that's when you get - that's great advice. "Hey, let's go get this loan, and we'll do this," and the rates never get high enough to fund your depreciation. They also get so high you tick everybody off. It just seems to me - and I look at, you know, 36 percent. I'm sitting in the chair where I can pontificate today. You're 36 percent of the Leaky Eleven, and, yes, you say they each have their own reasons they were in that group, but funding is at the base of all of them, right? You're an engineer, give you enough money and time, you can do anything.

4:36:55 PM Commissioner Mathews - witness Maggard
Note: Sacre, Candace My checkbook's empty, and I said that glibly, but we have said openly in many forums come ask for the rates you need to run your system, please. I mean, we're not trying to cash starve you so you'll die. So you do the rate studies, and you do them, I'm going to say, according to formulas that are required in the RD application?

4:38:07 PM Commissioner Mathews - witness Maggard
Note: Sacre, Candace And you have done ARF cases here, correct?

4:38:13 PM Commissioner Mathews - witness Maggard
Note: Sacre, Candace What is the difference? I mean, is depreciation the only difference, or are there some other subtle differences?

4:38:25 PM Commissioner Mathews - witness Maggard
Note: Sacre, Candace So funding that 15 years on, the short term assets versus the system?

4:38:37 PM Commissioner Mathews
Note: Sacre, Candace I'm done.

4:38:40 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace Examination. When you work for a rural water district and some of the others or a city, if you had a rural water district and you were working for them and you were helping them prepare for a rate case here, how would you get paid? Do you work by the hour, or how do you do that?

4:39:20 PM Commissioner Mathews - witness Maggard
Note: Sacre, Candace Examination. For free?

4:39:23 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace Examination. But when you do the work on an .023 loan, you get paid for that because it's part of the project, is that right?

4:39:34 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace I didn't ask the chairman this, but at the board meetings, does the Hyden-Leslie County Water District usually have a lawyer that comes to the meetings?

4:39:44 PM Chairman Schmitt - witness Maggard
Note: Sacre, Candace So they act without advice of counsel, as far as you know? They don't have a lawyer that comes to the meetings and gives them advice?

4:40:02 PM	Chairman Schmitt - witness Maggard Note: Sacre, Candace	North Manchester filed a rate case here last year. Are you familiar with that?
4:40:09 PM	Chairman Schmitt - witness Maggard Note: Sacre, Candace	They had a records problem, and records disappeared.
4:40:16 PM	Chairman Schmitt - witness Maggard Note: Sacre, Candace	No, I'm not holding you accountable. They said either somebody stole their records or the records disappeared. In any event, they couldn't find records, so they had to withdraw their rate Application because they couldn't prove anything because they didn't have any business records.
4:40:33 PM	Chairman Schmitt Note: Sacre, Candace	I don't have any other questions. Do you, Ms. Koenig?
4:40:35 PM	Staff Atty Koenig PSC Note: Sacre, Candace	No further questions.
4:40:36 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Wuetcher, anything?
4:40:37 PM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	No, sir.
4:40:38 PM	Chairman Schmitt Note: Sacre, Candace	May Mr. Maggard be excused?
4:40:40 PM	Staff Atty Koenig PSC Note: Sacre, Candace	Yes, thank you.
4:40:41 PM	Chairman Schmitt Note: Sacre, Candace	Thank you, Mr. Maggard. You may step down, and you're excused.
4:40:43 PM	Chairman Schmitt Note: Sacre, Candace	Why don't we take ten minutes and maybe reevaluate and see if you want these other witnesses or not or, if so, I'm sure you may want to talk to Mr. Turner for a minute. We'll be in recess until ten minutes till five o'clock.
4:41:09 PM	Session Paused	
4:53:45 PM	Session Resumed	
4:53:47 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Koenig, do you have another witness you'd like to call?
4:54:03 PM	Staff Atty Koenig PSC Note: Sacre, Candace	We'd like to offer, if any more of the board members would like to make any statements, they could.
4:54:11 PM	Chairman Schmitt Note: Sacre, Candace	Any of you men want to testify who haven't been - other than the chairman? You're here, and we've got a lot of information. I don't know if you know anything more or would like to say anything. If you do, we'll give you an opportunity to take the stand and say whatever you'd like to say. But it's kinda like, you know, if anybody has just cause, the two shall not be wed - speak now or forever hold your peace. This is it, so if you want to say anything, you're welcome to come up and give a statement. If you don't, we call Mr. Turner?
4:54:48 PM	Staff Atty Koenig PSC Note: Sacre, Candace	We'd like to call Mr. Turner.
4:54:55 PM	Chairman Schmitt Note: Sacre, Candace	Witness is sworn.
4:55:03 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Wuetcher?

4:55:06 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace Direct Examination. Good afternoon, Mr. Turner. Would you please state your name and business address?

4:55:14 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace And who is your employer?

4:55:18 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace And how long have you been employed by the Hyden-Leslie County Water District?

4:55:26 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace And what's your position?

4:55:32 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace Have you held that position since August of 2017?

4:55:37 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace Prior to that employment as general manager, where were you employed?

4:55:44 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace And what position were you there?

4:55:47 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace And how long did you hold that position?

4:56:02 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace And, just briefly, can you describe your duties as general manager?

4:56:16 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace And would you briefly describe your educational background?

4:56:23 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace Do you have any certificates or licenses?

4:56:38 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace Would you agree that have no direct knowledge of any of the events that may have occurred at Hyden-Leslie County Water District prior to your employment there on August 23, 2017?

4:56:51 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace And are you appearing here today and giving testimony under subpoena, is that correct?

4:56:55 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace And were you also expressly directed by the Commission, in its Order of January 17, to appear here today?

4:57:03 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace And have you read the Commission's Order of January 17, 2020?

4:57:12 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace Before I turn you over to Commission Staff for examination, I wanted to ask two things. Could you very briefly - you testified on behalf of Hyden-Leslie County Water District at the Commission's water loss investigation proceedings?

4:57:27 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace Can you give us an update on the current water loss situation at Hyden-Leslie County Water District? And you prepared an exhibit, have you not?

4:57:59 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace Let me go ahead and provide this to the Commissioners. I'll provide the graph to the rest of the parties in a supplement to the record.

4:58:09 PM HYDEN-LESLIE DISTRICT EXHIBIT 4
Note: Sacre, Candace ATTY WUETCHER HYDEN-LESLIE DISTRICT - WITNESS TURNER
Note: Sacre, Candace WATER LOSS GRAPH

4:58:12 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace Would you explain what the graph represents and what the current status of the water loss is in Hyden-Leslie County?

4:59:04 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace And I will go ahead and update for the record to get a more accurate one in terms of having the actual numerical data.

4:59:29 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace Do you recall having testified at the water loss investigation hearing about the Water District's target for reducing its water loss?

4:59:39 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace And what's the Water District's target goal?

4:59:47 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace At this point, has the District achieved that goal?

4:59:55 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace One more area that I wanted to ask you about, and that is your chairman testified that the board had adopted a resolution authorizing you to take all necessary actions to have a rate study prepared and an application to submit for a rate adjustment to the PSC. Can you give us a status report on that?

5:00:37 PM Atty Wuetcher Hyden-Leslie District - witness Turner
Note: Sacre, Candace I've handed you a document which I guess I would ask to be marked as Applicant Exhibit 5, and could you identify that for us?

5:00:39 PM HYDEN-LESLIE DISTRICT EXHIBIT 5
Note: Sacre, Candace ATTY WUETCHER HYDEN-LESLIE DISTRICT - WITNESS TURNER
Note: Sacre, Candace EMAIL OF 02/03/2020 LANGE TO TURNER RATE STUDY

5:01:11 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace Your Honor, at this time, I would move to have entered into the record, evidence of record, Applicant's Exhibits 2 through 5.

5:01:20 PM Chairman Schmitt
Note: Sacre, Candace Sustained.

5:01:22 PM Chairman Schmitt
Note: Sacre, Candace Ms. Koenig, do you have examination of the witness?

5:01:25 PM Staff Atty Koenig PSC
Note: Sacre, Candace Yes, I just have a couple of questions to follow up with.

5:01:28 PM Staff Atty Koenig PSC - witness Turner
Note: Sacre, Candace Cross Examination. Good afternoon, Mr. Turner. So, just to confirm, the Hyden-Leslie Water District is still operating in the red as you testified to in June?

5:01:40 PM Staff Atty Koenig PSC - witness Turner
Note: Sacre, Candace Do you know how long you have before you would be out of money?

5:02:01 PM Staff Atty Koenig PSC - witness Turner
Note: Sacre, Candace Is that all of the depreciation fund, or is that other -

5:02:07 PM Staff Atty Koenig PSC - witness Turner
Note: Sacre, Candace So you mentioned at the investigation hearing that you felt like the depreciation fund was overfunded. Can you explain what you meant?

5:02:35 PM Staff Atty Koenig PSC - witness Turner
Note: Sacre, Candace And you felt like that was overfunded?

5:03:05 PM Staff Atty Koenig PSC - witness Turner
Note: Sacre, Candace And then do you recall discussing the rate deficiency at the investigation hearing?

5:03:12 PM Staff Atty Koenig PSC - witness Turner
Note: Sacre, Candace And there's been lots of discussion, and you just testified that you've started the process to apply for a rate study, is that right?

5:03:24 PM Staff Atty Koenig PSC - witness Turner
Note: Sacre, Candace But you've already done a review of the sufficiency of your rates?

5:03:40 PM	Staff Atty Koenig PSC - witness Turner Note: Sacre, Candace	Is there a policy for how often that needs to be done, I mean, just considering the situation?
5:04:00 PM	Staff Atty Koenig PSC - witness Turner Note: Sacre, Candace	And have you ever made the recommendation to the board to file a rate case?
5:04:45 PM	Staff Atty Koenig PSC - witness Turner Note: Sacre, Candace	You've sat here all day and listened to all of the testimony. Is there anything that you would like to add to anything that's been said about the situation?
5:05:02 PM	Staff Atty Koenig PSC - witness Turner Note: Sacre, Candace	And you've already updated us on the progress that you've made since the 2019-00041 Order came out. You're still working to get the documents in order that you were ordered to file by May 24th. That's in progress?
5:05:24 PM	Staff Atty Koenig PSC Note: Sacre, Candace	I have no further questions.
5:05:25 PM	Chairman Schmitt Note: Sacre, Candace	Commissioner Mathews?
5:05:27 PM	Commissioner Mathews Note: Sacre, Candace	No questions.
5:05:31 PM	Chairman Schmitt - witness Turner Note: Sacre, Candace	Examination. Mr. Turner, when did you first become interim general manager in Knott County?
5:05:58 PM	Chairman Schmitt - witness Turner Note: Sacre, Candace	And then you worked there, what? Through 2017?
5:06:03 PM	Chairman Schmitt - witness Turner Note: Sacre, Candace	So, when you were a general manager in Knott County, you never had an opportunity to come before the Public Service Commission for an alternative rate filing, a base rate case here, is that correct?
5:06:20 PM	Chairman Schmitt - witness Turner Note: Sacre, Candace	Well, how do you do that?
5:06:29 PM	Chairman Schmitt - witness Turner Note: Sacre, Candace	I know you indicated, I think, when you testified in the investigative case, that, basically, you would do that periodically in Knott County as well, is that correct?
5:06:41 PM	Chairman Schmitt - witness Turner Note: Sacre, Candace	Now, Knott County hasn't been in for a rate increase until recently since 2002. I think they were 17 years, if you give them the benefit of last year, and they asked for an 80 percent rate increase and were awarded 65, so I guess what I'm saying is, what is the reluctance, if you know or maybe you don't even think there is a reluctance, on behalf of some rural water districts or the ones you've worked with, Knott County and Hyden, to come in and seek a rate increase from the Public Service Commission?
5:07:51 PM	Chairman Schmitt - witness Turner Note: Sacre, Candace	No, I understand. Fiscal Court, they didn't want any rate increase.
5:09:06 PM	Chairman Schmitt - witness Turner Note: Sacre, Candace	Well, I guess what I would say is, is that, one, in addition to the additional depreciation that is being lost, the District loses the opportunity to have Staff review other elements of its operation and provide information or support for things that the Water District might need to do, offer infrastructure support.

5:09:37 PM Chairman Schmitt - witness Turner
Note: Sacre, Candace But, in any event, I see where the Water District, Hyden-Leslie, passed a Resolution authorizing you, as general manager, to take whatever action is necessary to apply for a base rate increase with the Public Service Commission, correct?

5:09:55 PM Chairman Schmitt - witness Turner
Note: Sacre, Candace And do you intend to do that?

5:09:59 PM Chairman Schmitt - witness Turner
Note: Sacre, Candace You've been ordered to do it now?

5:10:30 PM Chairman Schmitt - witness Turner
Note: Sacre, Candace Let me tell you, one of the things, I think, that concerned us, when you all filed the application to approve this short-term funding with Kentucky Rural Water Finance Corporation and then to approve the loan that would take you out here with Kentucky Infrastructure, and the import of that to us was that you intended to do all of this through one of these .023 loans, and the rate increase was all going to be taken care of through this RD loan. Was that the intent of the Water District?

5:11:22 PM Chairman Schmitt - witness Turner
Note: Sacre, Candace It was?

5:11:25 PM Chairman Schmitt - witness Turner
Note: Sacre, Candace If that's the intent, you don't expect our approval? You've got to go through this rate increase, and you've got to finish it.

5:12:04 PM Chairman Schmitt - witness Turner
Note: Sacre, Candace I looked at your audits for 2017-18, and a couple of things were in there that maybe this is kinda standard language, but let me read it to you. Do you read the audit reports?

5:12:18 PM Chairman Schmitt - witness Turner
Note: Sacre, Candace I guess the auditor's letter, it's the end of the report, one of the things was Required Supplementary Information, here's what it says, "Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context."

5:13:09 PM Chairman Schmitt - witness Turner
Note: Sacre, Candace Now, why wouldn't the Hyden-Leslie Water District prepare management's discussion and analysis of its financial position in the audit?

5:13:35 PM Chairman Schmitt - witness Turner
Note: Sacre, Candace If you've done the analysis, why would he say you hadn't done it?

5:13:52 PM Chairman Schmitt - witness Turner
Note: Sacre, Candace Had you ever asked the auditor what the "management discussion and analysis" is supposed to be?

5:14:23 PM Chairman Schmitt - witness Turner
Note: Sacre, Candace I guess the accountant also, at page 20, noted that, during the audit procedures performed, instances of this objective. I guess the objective was to discuss internal controls, but he says, "Cause: The District's limited internal resources prevent the preparation of financial statements and related note disclosures in accordance with generally accepted accounting principles."

5:15:09 PM Chairman Schmitt - witness Turner
Note: Sacre, Candace "Effect: The District was unable to prepare their financial statements and related note disclosures in accordance with generally accepted accounting principles." Then it has, "Views of Responsible Officials and Planned Corrective Actions: The District feels it would not be cost beneficial to hire the personnel required to complete these tasks."

5:15:33 PM Chairman Schmitt - witness Turner
Note: Sacre, Candace What tasks are there that weren't completed?

5:15:56 PM Chairman Schmitt - witness Turner
Note: Sacre, Candace We'll just subpoena him for the rate case and find out, but there has to be some reason, it seems to me, why he would say - I know if you don't know the reason, but, I mean, he makes a finding that the District is not providing information that's found in audits according to generally accepted accounting principles for governmental entities, and I just think somebody ought to know what that is because we'd certainly be interested in knowing what the deficiencies were, all right?

5:16:44 PM Chairman Schmitt - witness Turner
Note: Sacre, Candace I mean, it could be a standard finding because there's a deficiency, and he finds it all the time, right?

5:17:03 PM Chairman Schmitt - witness Turner
Note: Sacre, Candace What did you do, what did the District do to be able to reduce its water loss from 36, 35 percent, whatever down to 19 or 20?

5:19:37 PM Chairman Schmitt - witness Turner
Note: Sacre, Candace Any members of the Hyden-Leslie County Water District, any of the commissioners, are they on the District's insurance program?

5:19:47 PM Chairman Schmitt
Note: Sacre, Candace No further questions. Anything else?

5:19:51 PM Staff Atty Koenig PSC
Note: Sacre, Candace No further questions. Thank you.

5:19:51 PM Chairman Schmitt
Note: Sacre, Candace Mr. Wuetcher?

5:19:52 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace No, sir.

5:19:55 PM Chairman Schmitt
Note: Sacre, Candace May Mr. Turner be excused?

5:19:57 PM Staff Atty Koenig PSC
Note: Sacre, Candace Yes. Thank you.

5:19:58 PM Chairman Schmitt
Note: Sacre, Candace You may step down, and you may be excused.

5:20:01 PM Chairman Schmitt
Note: Sacre, Candace Do you have anything else?

5:20:02 PM Staff Atty Koenig PSC
Note: Sacre, Candace No, sir.

5:20:03 PM Chairman Schmitt
Note: Sacre, Candace Mr. Wuetcher, do you have anything else to say or present?

5:20:06 PM Atty Wuetcher Hyden-Leslie District
Note: Sacre, Candace Just a question, Your Honor, because I know that the second portion of the application had sought approval of the KIA loan, and, obviously, part of that is going to be dependent upon the District obtaining sufficient rates, and that's what this rate case application will be. But I don't know if - the Commission had continued the case only for 60 days even though it has the authority just to continue it generally. Does the Commission expect -

5:20:37 PM	Chairman Schmitt Note: Sacre, Candace	Here's what I think, and I don't speak for anybody else but myself, at this point, and Commissioner Cicero isn't here, but I would anticipate that we might consider extending this case to terminate along with the rate case and, at the conclusion of the rate case, to basically make the final order in this case, which I assume would probably include approval once we get through the rate process. But we wouldn't like to see the rate case filed and then, for some reason, it be withdrawn. We've had that before.
5:21:19 PM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	I would submit to the Commission that my client would be very poorly served if it did that. The concern that I would have, and it may just be that, in establishing the rates in the case, the question as to whether - because this KIA loan will not be entered into until after a rate case order is issued, whether the Commission will take that under consideration in terms of applying the debt service necessary to service the cap.
5:21:53 PM	Chairman Schmitt Note: Sacre, Candace	We can find a way to fix that problem, I promise.
5:21:57 PM	Atty Wuetcher Hyden-Leslie District Note: Sacre, Candace	Having expressed that concern, I'll sit down. Thank you, Your Honor.
5:22:01 PM	Chairman Schmitt Note: Sacre, Candace	All right. Is there anything else, Ms. Koenig?
5:22:04 PM	Staff Atty Koenig PSC Note: Sacre, Candace	(Shook head negatively.)
5:22:09 PM	Chairman Schmitt Note: Sacre, Candace	If there's nothing else, then this hearing is now adjourned.
5:22:17 PM	Session Paused	
5:22:56 PM	Session Ended	



Name:	Description:
Hyden-Leslie District Exhibit 1	Letter from Barry R. Turner dated 12/27/2017 Application for Federal Assistance (Incomplete) WTP/Dam Repair
Hyden-Leslie District Exhibit 2	Email of 11/29/2017 Juckett to Millard Loan to Hyden-Leslie
Hyden-Leslie District Exhibit 3	Board of Commissioners Resolution No. 13020-02
Hyden-Leslie District Exhibit 4	Water Loss Graph
Hyden-Leslie District Exhibit 5	Email of 02/03/2020 Lange to Turner Rate Study
PSC Staff Exhibit 1	Direct Testimony of Linda C. Bridwell, P.E.



December 27, 2017

Mr. Augustus Roberts, Chairman
Hyden-Leslie County Water District
P.O. Box 906
Hyden, KY 41749

RE: Application for Federal Assistance (Incomplete)
WTP/Dam Repair

Dear Mr. Roberts:

Multiple components of an application for the above-referenced project have been submitted at various times to Rural Development since 2013. The most current version of many of these components of the application are dated from August and September of 2016, which are no longer current. Additionally, the "Notice of Intent to File an Application" included incorrect verbiage and the actual submittal date of parts of the application did not occur within the designated 60-day time period as defined by the notice. An updated PER, which was requested in late 2016, was received by Rural Development on November 30, 2017. The PER is up to date at this point; however, the following items must be provided in order to consider the application complete and continue processing for eligibility:

1. Notice of Intent to File an Application – Must be published in the local paper of greatest circulation and a complete application must be submitted within 60 days from the publishing date (see attached sample notice)
2. Application for Federal Assistance Forms are dated July 13, 2016. Forms SF 424, SF 424C, and SF424D (see attached forms)
3. State Clearinghouse Comments are dated July 25, 2016 and have expired. These comments must be updated. Please contact the Kentucky Department for Local Government to complete the update.
4. Applicant's statement that needed credit is or is not available from commercial or other credit sources at reasonable rates and terms is dated October 27, 2016, and this form must be updated – (see attached 1780-22 form)
5. A copy of the FY 2016 Audit should be provided
6. Written certification that the applicant has an up to date written policy on conflict of interest and a disclosure letter signed and dated by the applicant's official. (see attached sample plan and letter covering disclosure)
7. The project's engineering firm must register and/or be current in the System for Award Management (SAM).

Attached is a copy of our processing checklist that explains the requested item(s) in further detail. Due to the high volume of applications our office processes and the time it takes to monitor items received piece-meal; we are requesting that all items listed above be sent as a

Rural Development • London Area Office
100 Fortress Properties Street, Suite 3, London, KY 40741
Voice (606) 864-2172, EXT 4 • Fax 1-855-454-4516

USDA is an equal opportunity provider and employer.

If you wish to file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form (PDF), found online at http://www.ascr.usda.gov/complaint_filing_cust.html, or at any USDA office, or call (866) 632-9992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter to us by mail at U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, by fax (202) 690-7442 or email at program.intake@usda.gov.

HYDEN-LESLIE DISTRICT
EXHIBIT 1

~~complete package. When the above-mentioned items are received, your application will be forwarded to our State Office for funding consideration. Should your application be determined eligible and approved for funding, additional documentation will be required and will be requested at a later date.~~

If you have any questions or comments, please phone our office and ask for Clay McKnight, EXT 2266.



For BARRY R. TURNER
Area Director

Cc: Anthony Hollinsworth, Rural Development State Office
Mike Maggard, Sisler-Maggard Engineering, Lexington, KY

Wuetcher, Gerald

From: L.J. Turner <hlwater@tds.net>
Sent: Tuesday, February 4, 2020 11:28 AM
To: Wuetcher, Gerald
Subject: FW: Loan to Hyden-Leslie
Attachments: Hyden Leslie Water District.XLS

-----Original Message-----

From: Christian Juckett [mailto:cljuckett@rubinhays.com]
Sent: Wednesday, November 29, 2017 12:57 PM
To: Millard Kristen <kristen.millard@raymondjames.com>
Cc: hlwater@tds.net
Subject: Loan to Hyden-Leslie

Kristen:

I have copied LJ Turner on this email, because he has succeeded Leihman Howard as the manager of Hyden-Leslie WD (same email address).

LJ would like for you to review the loan numbers with him when you have the opportunity. I have attached a copy for LJ's review.

Also, we need to ensure that the District's note is payable at any time.
The project is close to completion and LJ hopes to pay it off with proceeds of an RD bond issue soon.

Christian

Christian L. Juckett
cljuckett@rubinhays.com
Rubin & Hays
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202
502-569-7532
502-744-8143 (mobile)

Preliminary

\$2,640,000

Kentucky Rural Water Finance Corporation
Public Projects Revenue Notes, Series 2018 A

Sources & Uses

Dated 01/25/2018 | Delivered 01/25/2018

Sources Of Funds

Par Amount of Bonds	\$2,640,000.00
Interest earnings in account	2,956.54

Total Sources **\$2,642,956.54**

Uses Of Funds

Total Underwriter's Discount (0.550%)	14,520.00
Costs of Issuance	38,280.00
Deposit to Capitalized Interest (CIF) Fund	46,970.00
Deposit to Project Construction Fund	2,540,000.00
Rounding Amount	3,186.54

Total Uses **\$2,642,956.54**

Preliminary

\$2,640,000

Kentucky Rural Water Finance Corporation
Public Projects Revenue Notes, Series 2018 A

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
01/25/2018	-	-	-	-	-
08/01/2018	-	-	23,870.00	23,870.00	-
12/31/2018	-	-	-	-	23,870.00
02/01/2019	2,640,000.00	1.750%	23,100.00	2,663,100.00	-
12/31/2019	-	-	-	-	2,663,100.00
Total	\$2,640,000.00	-	\$46,970.00	\$2,686,970.00	-

Yield Statistics

Bond Year Dollars	\$2,684.00
Average Life	1.017 Years
Average Coupon	1.7500000%
Net Interest Cost (NIC)	2.2909836%
True Interest Cost (TIC)	2.3002682%
Bond Yield for Arbitrage Purposes	-
All Inclusive Cost (AIC)	3.7734056%

IRS Form 8038

Net Interest Cost	1.7500000%
Weighted Average Maturity	1.017 Years

Preliminary

\$2,640,000

Kentucky Rural Water Finance Corporation
Public Projects Revenue Notes, Series 2018 A

Net Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	CIF	Net New D/S	Fiscal Total
01/25/2018	-	-	-	-	-	-	-
08/01/2018	-	-	23,870.00	23,870.00	(23,870.00)	-	-
02/01/2019	2,640,000.00	1.750%	23,100.00	2,663,100.00	(23,100.00)	2,640,000.00	-
12/31/2019	-	-	-	-	-	-	2,640,000.00
Total	\$2,640,000.00	-	\$46,970.00	\$2,686,970.00	(46,970.00)	\$2,640,000.00	-

Series 2018 A | Hyden-Leslie Water Distri | 11/28/2017 | 11:06 AM

Raymond James & Associates, Inc.

Public Finance

Preliminary

\$2,640,000

Kentucky Rural Water Finance Corporation
Public Projects Revenue Notes, Series 2018 A

Pricing Summary

Maturity	Type of Bond	Coupon	Yield	Maturity Value	Price	Dollar Price
02/01/2019	Term 1 Coupon	1.750%	1.750%	2,640,000.00	100.000%	2,640,000.00
Total	-	-	-	\$2,640,000.00	-	\$2,640,000.00

Bid Information

Par Amount of Bonds	\$2,640,000.00
Gross Production	\$2,640,000.00
Total Underwriter's Discount (0.550%)	\$(14,520.00)
Bid (99.450%)	2,625,480.00
Total Purchase Price	\$2,625,480.00
Bond Year Dollars	\$2,684.00
Average Life	1.017 Years
Average Coupon	1.7500000%
Net Interest Cost (NIC)	2.2909836%
True Interest Cost (TIC)	2.3002682%

Series 2018 A | Hyden-Leslie Water Distri | 11/28/2017 | 11:06 AM

Raymond James & Associates, Inc.

Public Finance

**A RESOLUTION OF THE BOARD OF COMMISSIONERS OF
HYDEN-LESLIE COUNTY WATER DISTRICT AUTHORIZING AN
APPLICATION TO THE KENTUCKY PUBLIC SERVICE
COMMISSION TO ADJUST RATES FOR WATER SERVICE**

WHEREAS, Hyden-Leslie County Water District is a water district created pursuant to the provisions of KRS Chapter 74;

WHEREAS, pursuant to KRS 278.015, the Kentucky General Assembly has declared water districts to be public utilities and subject to the jurisdiction of the Kentucky Public Service Commission in the same manner and to the same extent as any other utility as defined in KRS 278.010;

WHEREAS, on January 30, 2020, Hyden-Leslie County Water District entered an Assistance Agreement with Kentucky Rural Water Finance Corporation ("KRWFC") to borrow funds to borrow the sum of \$2,855,000 to secure interim financing for debt incurred in 2014 for the construction of certain waterworks facilities;

WHEREAS, Hyden-Leslie County Water District has applied to the Kentucky Infrastructure Authority ("KIA") for a loan of \$2,735,000 at very favorable terms to retire the Assistance Agreement executed January 30, 2020;

WHEREAS, KIA has approved Hyden-Leslie County Water District's application for a loan of \$2,735,000 payable over a 30-year period at an interest rate of 0.5 percent per annum, subject to certain conditions including that Hyden-Leslie County Water District apply for and obtain rates for water service that produce revenues sufficient to meet the debt service coverage requirements contained in its existing and any future debt obligations with Rural Development and in the proposed KIA Assistance Agreement; and

WHEREAS, in its Order of January 17, 2020 in Case No. 2019-00412, the Kentucky Public Service Commission has directed Hyden-Leslie County Water District to file an application for a rate adjustment within six months of its entry of a final order in that proceeding;

NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD OF COMMISSIONERS OF HYDEN-LESLIE COUNTY WATER DISTRICT AS FOLLOWS:

Section 1. The facts, recitals, and statements contained in the foregoing preamble of this Resolution are true and correct and are hereby affirmed and incorporated as a part of this Resolution.

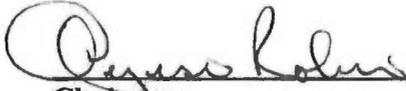
Section 2. The General Manager of Hyden-Leslie County Water District is hereby authorized and directed to take all actions necessary for the preparation and filing of an application with the Kentucky Public Service Commission for an adjustment of rates for water service, including the hiring of skilled professionals to prepare such application and legal counsel to represent Hyden-Leslie County Water District in any proceeding reviewing such application. The

General Manager shall exercise his best efforts to ensure that application is filed at the earliest date possible but no later than April 30, 2020.

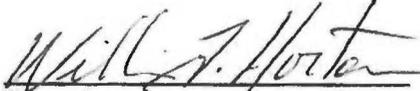
Section 3. The General Manager shall report at each meeting of the Board of Commissioners on the status of the application.

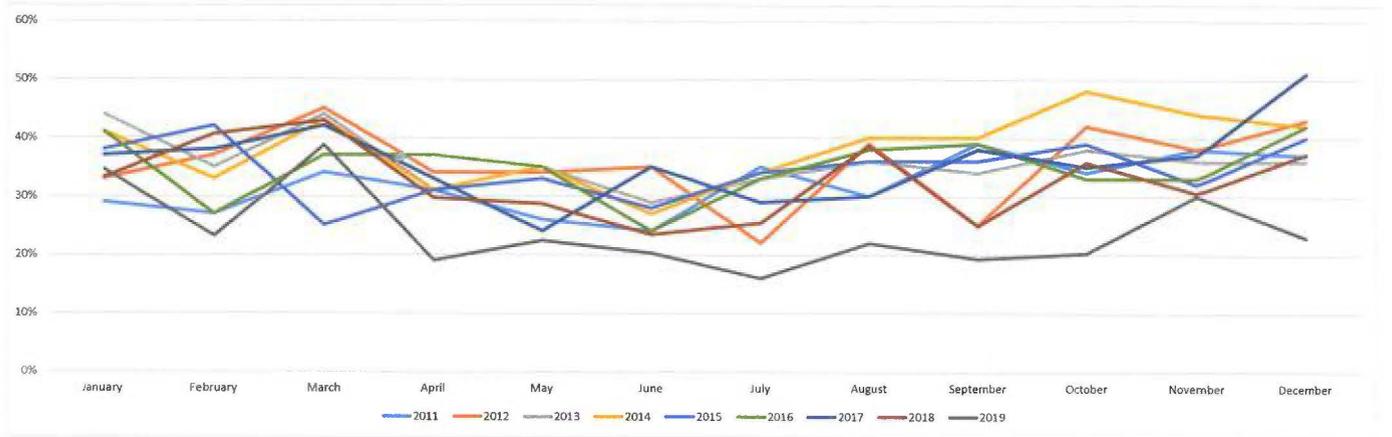
Section 4. The Chairman is hereby authorized and directed to execute any Application to the Kentucky Public Service Commission necessary to obtain an adjustment of rates for water service.

ADOPTED BY THE BOARD OF COMMISSIONERS OF HYDEN-LESLIE COUNTY WATER DISTRICT at a meeting held on January 30, 2020, signed by the Chairman, and attested by the Secretary.


Chairman

ATTEST:


Secretary



Wuetcher, Gerald

From: L.J. Turner <hlwater@tds.net>
Sent: Tuesday, February 4, 2020 1:38 PM
To: Wuetcher, Gerald
Subject: FW: Rate Study

From: Andy Lange [mailto:a.lange@krwa.org]
Sent: Monday, February 3, 2020 11:51 AM
To: L.J. Turner <hlwater@tds.net>
Subject: Re: Rate Study

No, Alan Vilines will take it from here.

Sent from my iPad

On Feb 3, 2020, at 10:39 AM, L.J. Turner <hlwater@tds.net> wrote:

Andy,

Do we need to do anything else to move forward with this process?

Thanks,

L.J.

From: Andy Lange [mailto:a.lange@krwa.org]
Sent: Monday, February 3, 2020 11:05 AM
To: L. J. Turner <hlwater@tds.net>
Cc: Alan Vilines <avilines@gmail.com>; Gary Larimore <g.larimore@krwa.org>
Subject: Rate Study

L. J.,

Here is our rate study proposal. As you will see, the ARC grant will be paying for the full cost.

Thanks,

--

Andy Lange
Assistant Director
Kentucky Rural Water Association
270.843.2291



This electronic mail transmission is intended solely for the named individual or entity to which it is addressed and may contain information that is confidential, proprietary and/or legally privileged. If you are not the intended recipient, do not read, copy, retain, forward or otherwise disseminate this message or any attachment. If you have received this transmission in error, please notify the Kentucky Rural Water Association via reply e-mail and delete all copies of the message and any attachment from your system.

Proposed Rate Study
Hyden-Leslie County Water District

Prepared by: **Kentucky Rural Water Association**

The Kentucky Rural Water Association (KRWA) will perform a rate study for the Hyden-Leslie County Water District (HLCWD) upon approval of this proposal. HLCWD provides water service to approximately 3,680 residential and commercial customers. The district produces its drinking water at its 1.5 MGD water treatment plant.

Retail water rates have not been increased since 2010. A customer using 4,000 gallons per month currently pays \$31.48.

Scope of Work

The rate study will include completing: Current and Proposed Retail Rates; Schedule of Adjusted Operations; Revenue Requirement Calculations; and Billing Analysis – Declining Block. KRWA will also include a written summary, presentation to the Board of Commissioners, ARF rate filings, a proposed board resolution, customer notices and response to PSC inquiries. This proposal does not include attendance at any PSC informal conferences or public hearings.

Qualifications

The rate analysis will be performed by Alan Vilines. Gary Larimore, KRWA Executive Director and Andy Lange, KRWA Assistant Director will coordinate the PSC filing submissions. Damon Talley, KRWA General Counsel will prepare any legal documentation necessary and review the PSC filings.

Estimated Cost

ARF Rate Study:

Estimated research, analysis and meetings: \$5,000

Public Service Commission Filing:

Estimated research and compilation: \$2,000

Travel:

Two round trips from Bowling Green to Hyden-Leslie County WD: \$500

Total: \$7,500

ARC -\$7,500

HLCWD \$0

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

IN THE MATTER OF:

**ELECTRONIC APPLICATION OF HYDEN-LESLIE)
COUNTY WATER DISTRICT FOR)
AUTHORIZATION TO ENTER A SHORT-TERM)
ASSISTANCE AGREEMENT WITH KENTUCKY)
RURAL WATER FINANCE CORPORATION TO)
REFUND AN EXISTING LOAN AND TO)
SUBSEQUENTLY ENTER A LONG-TERM)
ASSISTANCE AGREEMENT WITH THE)
KENTUCKY INFRASTRUCTURE AUTHORITY)**

**CASE NO.
2019-00412**

DIRECT TESTIMONY OF LINDA C. BRIDWELL, P.E.

February 4, 2020

PSC STAFF EXHIBIT 1

1 Q. Please state your name and business address.

2 A. My name is Linda C. Bridwell and my business address is 100 Airport Road, Third Floor,
3 Frankfort, KY 40601.

4 Q. By whom are you employed and in what capacity?

5 A. I am employed by the Commonwealth of Kentucky as Deputy Executive Director for the
6 Kentucky Infrastructure Authority ("KIA").

7 Q. Have you previously filed testimony before this or any other commission?

8 A. Yes. I previously provided both written and oral testimony in at least seventeen different
9 proceedings before the Kentucky Public Service Commission including rate cases, special
10 investigations, and applications for a Certificate of Public Convenience and Necessity. I
11 have also provided both written and oral testimony before the Tennessee Public Utility
12 Commission ("TPUC" or "Commission") in at least twelve different proceedings.

13 Q. Please state your educational and professional background.

14 A. I received a B.S. degree in Civil Engineering from the University of Kentucky in 1988, and
15 I received a M.S. degree in Civil Engineering from the University of Kentucky in 1992,
16 with an emphasis in water resources. I completed a Masters of Business Administration
17 from Xavier University in Cincinnati, Ohio in 2000. I am a registered Professional
18 Engineer in the Commonwealth of Kentucky.

19 I have been employed in my current role with the Kentucky Infrastructure Authority since
20 February 1, 2019.

21 Prior to that, I was employed by American Water ("AWW") starting in 1989. I worked in
22 various roles with increasing responsibility from construction supervision, engineering,
23 engineering management, and rates and regulation. I have been a member of the American

1 Water Works Association (AWWA), served as president of the local chapter and state
2 section of the American Society of Civil Engineering (ASCE), and served as an officer in
3 the local chapter of the National Society of Professional Engineers (NSPE) and as a State
4 officer. I have served periodically as an Adjunct Professor at the University of Kentucky
5 in the Civil Engineering Department, teaching "Water Quality and Pollution Control" and
6 the "Introduction to Environmental Engineering." I served as a member of the
7 Civil Engineering Industrial Advisory Committee at the University of Kentucky from 2005
8 until 2012. I served as a Commissioner on the Kentucky Water Resources Development
9 Commission established by Governor Patton and on the Kentucky State Board of Licensure
10 for Professional Engineers and Land Surveyors. I served as a Board Member and Vice
11 Chairman of the Board of Directors for the Kentucky Infrastructure Authority until January
12 2019.

13 **Q. What are your duties as Deputy Executive Director of the KIA?**

14 **A.** My primary responsibilities encompass the coordination of the financial staff of the KIA.
15 The KIA has been granted authorization by the Kentucky legislature for the administration
16 of four funds available to loan money to entities for infrastructure construction. The
17 financial staff of the KIA reviews loan applications, prepares a credit analysis for each loan
18 application, and recommends loans for approval to the Board of Directors. Once the loans
19 are approved, the financial staff administers the loan agreements, oversees disbursement
20 of the funds, closeout of the loan disbursements, and billing of loan repayments. The
21 financial staff ensures compliance by borrowers with the terms of each loan agreement, is
22 responsible for reporting on the program, and prepares financial statements of the agency
23 for audit.

1 **Q. What is the purpose of your testimony?**

2 A. The purpose of my testimony is to provide information regarding the approval by the KIA
3 Board of Directors November 7, 2019 for a long-term financing for Hyden-Leslie Water
4 District from Fund B. Additionally, I can provide information regarding previous Hyden-
5 Leslie Water District grant funding through the KIA. My knowledge on prior grant funding
6 is through a review of the KIA archived files.

7 **Q. Can you provide more information about the KIA?**

8 A. Certainly. The Kentucky Infrastructure Authority (KIA) was created in 1988 by the
9 General Assembly to provide a mechanism for funding the construction of local public
10 works projects, including but not limited to, water, sewer, broadband, and gas utility (KRS
11 224A). Along with financing, KIA is designated as the state agency responsible for
12 implementing a program for the provision water services available to all Kentuckians by
13 2020 (KRS 224.300) from SB 409 (2000 Regular Session).

14 SB 409 encourages regionalization, consolidation, and partnerships among governmental
15 agencies and private parties when appropriate. Additionally SB 409 created a structured
16 planning process for water services in Kentucky. The law mandates the creation of the
17 2020 Water Management Planning Councils to facilitate regional water planning (KRS
18 151.601). Further, KIA is charged with coordinating and maintaining the Water Resource
19 Information System (WRIS), a database containing information on existing facilities as
20 well as information on all proposed water and wastewater projects throughout the State
21 seeking state or Federal financing.

22

23 **Q. Can you describe the loan programs administered by the KIA?**

1 A. Yes. KIA administers four loan programs to assist in funding infrastructure projects. As
2 of June 30, 2019, KIA had 619 loans among 242 borrowers with nearly \$1.5 billion in
3 assets. The programs are:

4 1) Clean Water State Revolving Fund (Fund A) is a Federally-assisted loan program to
5 help governmental agencies construct publicly owned treatment works, implement
6 management programs, and implement conservation and management plans according to
7 the Federal Clean Water Act. The USEPA Capitalization Grant requires a 20% match,
8 which is funded by the General Assembly. Projects must comply with Federal guidelines.

9 2) Infrastructure Revolving Fund (Fund B) is a state-assisted loan program used for the
10 construction and acquisition of public works infrastructure projects. The 2020 Account is
11 a subaccount of this fund.

12 3) Governmental Agencies Program (Fund C) provides local governmental agencies
13 access to the bond market at lower interest rates than they could otherwise obtain on their
14 own. The account is used for public works infrastructure projects.

15 4) Drinking Water State Revolving Loan Fund (Fund F) is a Federally-assisted loan
16 program to help government agencies construct water supply projects that comply with the
17 Safe Drinking Water Act. The USEPA Capitalization Grant requires a 20% match, which
18 is funded by the General Assembly. Projects must comply with Federal guidelines.

19 **Q. Does Hyden-Leslie Water District currently have any active loans with the KIA?**

20 A. No, they do not have any active loans other than the pending loan that is the subject of this
21 case.

22 **Q. When did Hyden-Leslie request financing from the KIA for the current loan?**

1 A. On January 3, 2019, the KIA received a Letter of Intent from the Hyden-Leslie Water
2 District requesting a loan for \$2,700,000 from Fund B or C to provide permanent financing
3 to replace a short-term debt that was used to finance a previous construction project. It is
4 my understanding that there may have been conversations prior to that formal Letter of
5 Intent between the former KIA Executive Director Donna McNeil and Hyden-Leslie Water
6 District representatives including Mr. Larry J. (“LJ”) Turner. However, those
7 conversations were prior to my joining the KIA and I don’t recall that any specific details
8 regarding those conversations that may have been shared with me at a later date. On
9 January 4, 2019, the KIA sent a letter to Hyden-Leslie Water District indicating that funds
10 were available and inviting them to apply for a loan from Fund B. On March 12, 2019, the
11 KIA received a signed application for the loan dated March 1, 2019.

12 **Q. Does the invitation to apply for a loan guarantee a loan will be approved by the KIA**
13 **Board of Directors?**

14 A. No, it does not. Once the application is received, the KIA staff will complete a credit
15 analysis to determine if the entity is eligible to receive funding from the KIA, and if the
16 entity is financially able to provide repayment on the loan. If not, the loan may still be
17 recommended to the Board of Directors of the KIA for approval with recommended
18 conditions that must be met prior to the execution of an agreement for the loan between the
19 KIA and the entity.

20 **Q. Were there reasons why the Hyden-Leslie Water District sought a Fund B loan rather**
21 **than a loan under another program offered by the KIA?**

22 A. Yes. As a drinking water project, the project would not qualify for Fund A financing which
23 is only for wastewater projects. While refinancing is permitted under Fund F, the entity

1 would need to assure that the initial project met all of the current federal requirements
2 during its original construction. There were new requirements placed on the federally
3 funded projects in 2016, and it was unlikely that the Hyden-Leslie Water District project
4 would have met those requirements during construction in 2014. While the District would
5 be eligible for financing under Fund C, the interest rates for Fund B are lower.

6 **Q. Did the KIA Staff conduct a credit analysis for the Hyden-Leslie Water District**
7 **request for a loan?**

8 A. Yes, they did. The credit analysis was initiated by Mr. Jeff Abshire, who is the KIA
9 Treasurer and previously worked as a loan analyst. Our records document correspondence
10 between Mr. Abshire and Mr. Turner with questions for preparing the credit analysis.
11 There does not appear to be any specific concerns raised during the initial credit analysis
12 development other than revenues were not sufficient to repay the loan. Mr. Abshire worked
13 on the credit analysis through early May 2019.

14 In May 2019, the KIA hired a new Financial Analyst named Michael Dant. I asked Mr.
15 Abshire to transfer responsibility for completion of the credit analysis to Mr. Dant to allow
16 him to learn the process. Mr. Dant completed the credit analysis with recommendations
17 for approval, but left the KIA on September 26, 2019.

18 **Q. What were the results of the credit analysis of the Hyden-Leslie Water District?**

19 A. Based on the KIA credit analysis, the Hyden-Leslie Water District did not currently have
20 sufficient revenues to provide debt service for the KIA loan. Further, based on the review of
21 the 2018 audit, the Hyden-Leslie Water District in 2018 had a negative Net Operating
22 Income, that was greater than its recorded annual depreciation. This left the Hyden-Leslie
23 Water District with no cash available for debt service in 2018 on its income statement.

1 Further, the 2016 Audit indicated \$2,096,906 in Current Assets listed as Cash and
2 Investments. By 2018, the amount was reduced to \$1,296,157, or a reduction of \$800,749
3 in 2 years.

4 **Q. Can you explain what these results mean?**

5 Yes. What this means simply is that in 2018, the Hyden-Leslie Water District brought in
6 less revenues than it needed to cover the District's operating expenses and depreciation.
7 This is not ideal, but not uncommon in small utilities. Utilities collect revenues sufficient
8 to cover all operating expenses including depreciation of assets, which is a non-cash
9 operating expense. Cash operating expenses require cash to be paid out from the utility to
10 another party, such as purchasing chemicals or paying employee salaries. Non-cash
11 operating expenses do not require cash to be paid out. This allows utilities to use the
12 collection of those revenues to pay for ongoing infrastructure construction, save the cash
13 for a large construction project, or provide debt service payments. Frequently, small
14 utilities may have a negative net operating income shown on their income statement, but
15 still have cash available on an ongoing basis.

16 What is not common is a situation where even after consideration of the non-cash operating
17 expenses, the income after debt service is negative. This can be a serious situation for the
18 financial stability of a utility. It appears that in the case of Hyden-Leslie Water District,
19 for 2017 and 2018, the cash available for debt was less than the amount of existing annual
20 cash received even after the non-cash expense of depreciation. Therefore, the Hyden-
21 Leslie Water District utilized their cash reserves from prior years to meet loan payments
22 including principal and interest.

1 **Q. Were there other concerns raised during the credit analysis of the Hyden-Leslie**
2 **Water District loan application?**

3 Yes. During Mr. Dant's work, he approached me with an additional concern. It came to
4 Mr. Dant's attention that the initial financial information did not include additional debt
5 service payments that would be required for a project that the Hyden-Leslie Water District
6 is pursuing with the Rural Development ("RD") funds through the US Department of
7 Agriculture. This project was described as "Phase III Water System Improvements
8 Project". Mr. Dant then requested and received information regarding the RD financial
9 review as part of the RD approval process for a loan with Hyden-Leslie Water District.
10 Mr. Dant then came back to me with concerns that the RD financial review did not include
11 debt service for the current loan application with the KIA.

12 This did not appear to be a deliberate effort to understate obligations, as Mr. Turner was
13 forthcoming with extensive information and details when the concern was raised. Mr.
14 Turner made it clear that he understood that the Hyden-Leslie Water District would
15 need to seek an increase in net operating income, and that the only avenue available to
16 them would be to seek an increase in revenues through a rate increase.

17 Further, the KIA understood that Hyden-Leslie Water District would need to receive
18 authorization from the PSC for not only the rate increase, but also for the loan with the
19 KIA. This would take some time to prepare the applications to the PSC, and complete the
20 requirements for the RD project approval.

21 **Q. What did the KIA do at this point?**

22 The KIA offered to set up a conference call every two weeks, beginning September 4,
23 2019, to include representatives of the KIA, the Kentucky Rural Water Association, Rural

1 Development and Hyden-Leslie Water District to make sure that all parties were on the
2 same page, and understood the steps necessary to complete the RD project and the
3 financing with the KIA.

4 **Q. What was Kentucky Rural Water Association's role in the conversation?**

5 A. It is my understanding that Kentucky Rural Water has provided the short-term financing
6 that is to be replaced with the KIA long-term financing.

7 **Q. Were you ever led to believe that the Kentucky Rural Water Association, through its**
8 **Kentucky Rural Water Corporation, was not willing or able to provide long-term**
9 **financing?**

10 A. Not at all. In fact, it is my understanding from our conversations that the Kentucky Rural
11 Water was willing to provide long-term financing, however, the KIA was able to offer a
12 slightly lower interest rate and provide a longer term for the loan, which would result in
13 lower annual payments by the Hyden-Leslie Water District. However, the District would
14 still need to seek PSC authorization for the long-term financing, whether it was with the
15 KIA or Kentucky Rural Water. It is my understanding that the Kentucky Rural Water
16 short-term financing was set to expire on February 1, 2020, and therefore arrangements for
17 a long-term financing needed to be in place by February 1, 2020 or authorization for a
18 continuation of the short-term financing until the long-term financing could be put in place.

19 **Q. What were the next steps by the KIA?**

20 A. In September 2019, Mr. Dant resigned from the KIA to move out of Kentucky with another
21 employer. Prior to his departure, Mr. Dant completed the credit analysis and on November
22 7, 2019, I presented the request for the loan with Hyden-Leslie Water District to the KIA
23 Board of Directors, with a recommendation from the KIA staff for approval by the KIA

1 Board of Directors with certain conditions outside normal conditions for loans. These
2 conditions were:

- 3 1) By November 30, 2019, the District will need to apply to the Public Service
4 Commission (PSC) for debt authorization for the \$2.735 million refinancing loan.
- 5 2) By November 30, 2019, the District will need a resolution from the Hyden-Leslie
6 Water District Board, demonstrating their intentions to increase revenues as necessary
7 and authorized by the PSC to meet the loan requirements over the life of the loan.
8 KIA Staff review indicates that rates would need to be increased by 40% in 2020, and
9 then 3% annually beginning in 2021 to keep up with expenses and RD debt service.
- 10 3) The District will need to satisfy the letter of conditions from Rural Development on
11 the Phase III project by January 31.

12
13 The KIA Board approved the loan with the recommended conditions.

14 **Q. Why did the recommendations only include filing for the debt authorization from the**
15 **PSC by November 30, 2019? Can the KIA enter into the loan agreement before the**
16 **PSC debt authorization is granted?**

17 A. No, the loan agreement between the KIA and the Hyden-Leslie Water District cannot be
18 executed without the District receiving authorization for the debt from the PSC. The
19 intention of the condition was to assist the District in receiving the debt authorization in a
20 timely manner in order to meet the requirements of the Kentucky Rural Water short-term
21 financing.

22 **Q. Has the Hyden-Leslie Water District met the conditions required by the Board?**

23 A. The Hyden-Leslie Water District has met the first two conditions, but asked for an
24 extension to meet the third condition until June 1, 2020. On December 20, 2019, the KIA
25 notified the Hyden-Leslie Water District that it would extend the deadline for meeting the
26 third condition until June 1, 2020.

1 **Q. Are there any other approvals that are required prior to the KIA executing the loan**
2 **agreement?**

3 A. Yes. The KIA presents all loan requests to the Capital Projects and Bond Oversight
4 Committee ("CPBOC") of the Kentucky Legislature. The KIA does not generally present
5 any loans to the CPBOC until all of the conditions have been met. The CPBOC meets
6 monthly, and the presentation is generally provided 2 weeks in advance. Therefore, it will
7 take another 45-60 days after the conditions have all been met to present the project to
8 CPBOC and begin the process of executing the loan agreement.

9 **Q. Has the KIA funded any other Hyden-Leslie Water District projects?**

10 A. Yes. It appears from our records that the Hyden-Leslie Water District has received two
11 legislative grants that have been administered by the KIA. In 2006, the KIA executed a
12 grant agreement for \$250,000 for project WX21131003. In 2012, the KIA executed a grant
13 agreement for \$500,000 for project WX21131008 under the 2008 House Bill 608 for
14 Grassy Waterline Extensions.

15 **Q. Are you familiar with those projects?**

16 A. No. The grant agreements were executed and completed before I started working at the
17 KIA. Although I was a member of the Board, the Board had very little information
18 regarding grant oversight since they were authorized specifically by the Legislature. My
19 only knowledge is from a review of the archived files.

20 **Q. Does this conclude your direct testimony?**

21 A. Yes. I reserve the ability to submit further testimony as is appropriate.

22

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