

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PROPOSED MERGER OF THE)
MCKINNEY WATER DISTRICT AND THE) CASE NO. 8974
MCKINNEY WATER ASSOCIATION,)
LINCOLN COUNTY, KENTUCKY)

O R D E R

On November 29, 1983, the Public Service Commission received a letter from Earl Butcher, County Judge/Executive, Lincoln County, Kentucky, requesting a Commission investigation into the feasibility of merging the McKinney Water District ("District") and the McKinney Water Association ("Association"). In response to this letter and in accordance with KRS 74.361, the Commission prepared a feasibility report. This report found that a merger was feasible and that it should be accomplished.

A hearing was held on May 9, 1984, in the offices of the Public Service Commission, Frankfort, Kentucky, and all parties of interest were provided an opportunity to be heard. Mr. Dean Griffin, Commissioner of the District, Mr. Harrison Reynolds, President of the Association, and Mr. David King of the Farmers Home Administration ("FmHA") appeared at the hearing and provided testimony in this matter. A Commission staff engineer also appeared to respond to questions concerning the feasibility report.

The testimony of Mr. Griffin and Mr. Reynolds included opinions that the proposed merger was not feasible and that present operations could not be improved by merger.

Mr. King's testimony included an opinion that FmHA would not oppose merger. He did, however, express FmHA's concern for potential problems relating to retirement of the debts of the District and the Association. The notes of the Association are held by FmHA, and Mr. King stated that merger should not put FmHA in the position of guaranteeing the bonds of the District.

The Commission on its own motion scheduled a formal conference for September 21, 1984, to further discuss the feasibility of merging the District and the Association. At that conference, the Commission announced its decision to order the merger of the District and the Association. All interested parties were allowed to make comments concerning the implementation of the merger.

The Commission, after consideration of the intent of KRS 74.361, the record in this matter and being advised, is of the opinion and finds that:

1. Section (1) of KRS 74.361 establishes a statutory basis for merger and sets forth the purposes of merger. It states:

The General Assembly of the Commonwealth of Kentucky determines as a legislative finding of fact that reduction of the

number of operating water districts¹ in the Commonwealth will be in the public interest, in that mergers of such districts will tend to eliminate wasteful duplication of costs and efforts, result in a sounder and more businesslike degree of management, and ultimately result in greater economies, less cost, and a higher degree of service to the general public; and that the public policy favors the merger of water districts wherever feasible.

2. The feasibility study of record in this matter shows that merger of the Association into the District is feasible and, in accordance with the purposes of KRS 74.361, should be accomplished.

3. It is in the public interest for the Association to be merged into the District.

4. The District, in accordance with KRS 74.110, should petition the Lincoln County Judge/Executive for enlargement of the territorial limits of the District to include the service area of the Association.

5. The Association should surrender its corporate charter to the Secretary of State on the date the merger becomes effective.

6. Retirement of the outstanding obligations of both the District and the Association should be continued by the District in accordance with Section (5) of KRS 74.361. The District should provide FmHA with a formal agreement for retirement of the debt of the Association.

¹The legislative findings apply to both associations and districts. See Section (9) of KRS 74.361.

7. The District and the Association should file joint progress reports monthly with the Commission. These reports should outline the progress being made toward a successful merger. These reports should be filed on the first day of each month following the date of this Order with the first report filed on November 1, 1984. The reports should state that they are in reference to Case Number 8974. Commission staff members should provide assistance to the personnel of the District and Association to facilitate the submission of the reports and the accomplishment of the merger itself.

8. Annual reports for calendar year 1983 for both the District and the Association show that both utilities do not have sufficient revenue to meet expenses with adequate reserves for debt service. As a first step in alleviating these problems and establishing a unified rate structure, the merged District should adopt the present rate schedule of the Association effective January 1, 1985. The adoption of rates should comply with the Commission's regulations governing rate adjustment and notice provision.

9. Additional Orders may be required to address outstanding obligations, rates and charges for services of the merged water district.

IT IS THEREFORE ORDERED that the Association shall be merged into the District effective January 1, 1985.


IT IS FURTHER ORDERED that both the District and the Association shall immediately begin the work essential to accomplishment of the merger. All aspects of the merger,

including those described herein by Findings Numbered 4, 5, 6, 7, and 8, shall be accomplished prior to January 1, 1985.

IT IS FURTHER ORDERED that all parties of interest be advised that additional Orders may be required to address outstanding obligations, charges for services and the rates of the merged water district, all in accordance with Section (6) of KRS 74.361.

Done at Frankfort, Kentucky, this 9th day of October, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary