

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PROPOSED MERGER OF SOUTH)
ANDERSON WATER DISTRICT, ALTON WATER)
DISTRICT, AND STRINGTOWN WATER) CASE NO. 9553
DISTRICT)

O R D E R

On April 17, 1986, the Commission upon its own motion initiated an investigation into the advisability of a merger of South Anderson Water District, Alton Water District, and Stringtown Water District. Pursuant to KRS 74.361 (2), the Commission has prepared a feasibility report regarding a merger (Appendix A).

The Commission, having considered the report and being advised, is of the opinion and finds that it may propose that a merger of South Anderson Water District, Alton Water District, and Stringtown Water District be accomplished.

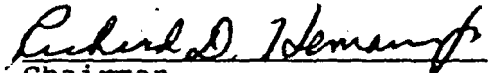
IT IS THEREFORE ORDERED that:

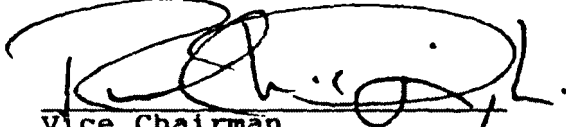
1. This matter be and it hereby is set for hearing on October 15, 1986, at 9:00 a.m., Eastern Daylight Time, in the Commission's offices at Frankfort, Kentucky, for the purpose of considering the proposed merger. Staff preparing the feasibility report will be available for cross-examination.

2. Each district shall file written comments on the feasibility report by October 1, 1986.

Done at Frankfort, Kentucky, this 22nd day of September, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

Commonwealth of Kentucky
Public Service Commission

**REPORT ON THE PROPOSED MERGER OF
SOUTH ANDERSON WATER DISTRICT, ALTON WATER DISTRICT,
AND STRINGTOWN WATER DISTRICT, C.N. 9553**

August 22, 1986

INTRODUCTION

On December 26, 1985, the Public Service Commission received a letter from the County Judge Executive of Anderson County, Jim Catlett, requesting that the Commission study the feasibility of merging the water districts in Anderson County. The letter commented on the fact that Anderson, while a relatively small county, has four water utilities. There are three water districts in the county, and they all purchase their water from the City of Lawrenceburg. Each of the existing water districts presently serves less than 500 customers. This is well below 2000 customers, generally considered sufficient to insure viable long-term operation. Judge Catlett expressed his belief that the people of the county would best be served by a consolidated, or merged, water utility. The districts under consideration in Anderson County are South Anderson Water District ("South Anderson"), Stringtown Water District ("Stringtown"), and Alton Water District ("Alton").

The Public Service Commission is, by KRS 74.361, "authorized and empowered to initiate, carry out, and complete investigations, inquiries, and studies as may be reasonably necessary to determine the advisability as to the merger of water districts." KRS 74.361

Report - The Proposed Merger, C.N. 9553
Page 2
August 22, 1986

further outlines the procedure to be followed in order to accomplish the merger of water districts by the Public Service Commission. A merger proposed by the Public Service Commission requires a written feasibility report and study. Such a report and study should show that it is, or is not, possible to consolidate the water utilities under consideration. In addition, a formal hearing before the Public Service Commission must be held on the proposed merger. At the conclusion of such proceedings the Commission enters an order, either merging the water utilities into a single district, or abandoning the merger proposal. This report is intended to fulfill the requirement of KRS 74.361 that a feasibility report be written.

Pursuant to the requirement that a written report be prepared, the Commission ordered each of the districts to supply certain information relevant to the financial and operational status of the utilities. Alton was slow in replying to the Commission's Order, and did not supply all of the information that was requested. Repeated attempts by the Commission staff to obtain a complete response to the Order have proven unsuccessful.

DISTRICTS BEING CONSIDERED

South Anderson Water District

South Anderson was established on May 5, 1967, by the Anderson County Court, in accordance with the provisions of KRS Chapter 74. C.N. 4811 was the original case heard by the

Report - The Proposed Merger, C.N. 9553
Page 3
August 22, 1986

Commission on the formation of the District, which was established in part to serve customers to which Stringtown did not want to extend service. The District had its boundary with the Stringtown Water District modified by the Court on September 25, 1975. South Anderson's territory includes most of the southern half of Anderson County (see Figure 1), with a service area of approximately 71 square miles. South Anderson and Stringtown are contiguous along a portion of their boundaries in the eastern part of the county.

In 1975 the District applied for and received a Certificate of Public Convenience and Necessity for construction of a water distribution system (C.N. 6396). The system was to serve between 160 and 179 customers. The final engineering report stated that 100 customers would receive water purchased from the Stringtown Water District, and 79 would receive water purchased from the City of Lawrenceburg. The source of water in either case is actually the City of Lawrenceburg, which supplies all of Stringtown's water. Stringtown has a pumping station which is used to boost line pressure in order to help in flowing water to South Anderson.

At the time South Anderson petitioned the Commission for a Certificate of Public Convenience and Necessity to construct its original system, the District Commissioners were asked if they had considered a merger with Stringtown. South Anderson replied that it had met several times with Stringtown and discussed merger, but

had been turned down. According to South Anderson, Stringtown was not interested in any course of action that might lead to higher rates for the customers in that territory. At one point, when asked if there was any possibility that Stringtown might consider a merger, Bob Kinsler, the current Treasurer for South Anderson made the following comment, "...they do not want any expansion that will eventually increase any water rates, so they turned down an offer to merge."¹ Mr. Kinsler went on to say, "I would say from talking with Stringtown Commissioners that they may not be interested in any merger that might cost their people to have an increased rate. This is basically what they are concerned with and when I moved and built a new home about a half mile from the water system of Stringtown, it was going to be no time that we were going to have water down that way but the people bucked the Commissioners in fear that this increased cost of construction would raise their water rates."²

South Anderson's original construction was primarily funded by a Farmers Home Administration ("FmHA") grant of \$216,000 and an FmHA loan of \$208,000. The \$208,000 FmHA loan was for a term of 40 years, at a rate of 5%. As of December 31, 1985, the remaining part of the loan was \$193,000. In 1981, in C.N. 8191-A,

¹ Page 27, Transcripts, C.N. 6396.

² Page 35-36, Transcripts, C.N. 6396.

Report - The Proposed Merger, C.N. 9553
Page 5
August 22, 1986

the District applied for and received a certificate for construction of extensions to its water distribution system. The 1981 expansion extended water service to include Taylor Road, and more of Hwy 62 than was previously served. The total length of line was 3 miles, and included 6- and 4-inch pipe. Water for the extension comes from the City of Lawrenceburg. The total cost of construction was \$126,000, with \$50,000 coming from a FmHA loan, of which \$49,000 was owed as of December 31, 1985. The system has grown over the past 11 years from approximately 179 customers to over 450. Based on the map supplied by the District, and the letter from Judge Catlett, the District also has plans for expanding its system in the future.

Based on available information, an extension to the District service area is planned, but not for a specific target date. The area into which the District anticipates expanding is indicated in Figure 1. The District seeks \$565,000 in CDBG funds, and a loan of \$576,000 from FmHA to finance the extensions. This construction will take the District into the northeast and southwest corners of the county. The northeast extension is north of Lawrenceburg, is completely outside the District's current territory, and is next to the Alton Water District. Whether Alton should make the planned extensions north of Lawrenceburg has not been studied, though it would appear to be the logical choice among the existing districts. Based on information supplied by

the District, it appears the utility plans on expanding its system to approximately twice its current size. Plans include 24.1 miles of 6- and 4-inch pipe, and two storage tanks. The District expects to add at least 166 new customers, which would increase its customer base to 586. Available line schematics indicate that the city of Lawrenceburg will be the source of water for the expanded system, with a portion of that water passing through the Stringtown District.

Stringtown Water District

Stringtown was established in 1950 by the Anderson County Court, in accordance with the provisions of KRS Chapter 74. The District's southern boundary, with South Anderson, was modified on September 25, 1975. The modifications gave some of Stringtown's territory to South Anderson, eliminating its need to make extensions south of its existing system. At the time, the District petitioned the Commission for a rate increase, and C.N. 6536 was established. On page 17, in the transcripts from the hearing for that case, the District's engineer, Warner Broughman III, noted that Stringtown would benefit from a water tank South Anderson would have to build for its system. The District would have some form of fire protection and stand-by water without any expense.

Based on information supplied by the District, Stringtown's territory runs mainly north and south along Hwy 127 between

Report - The Proposed Merger, C.N. 9553

Page 7

August 22, 1986

Lawrenceburg and South Anderson, a distance of approximately two miles. The District has lines, both 6- and 4-inch, which run east and west along Salt River Road for a combined distance of less than one mile. The map supplied by the District also indicates a four inch line running north from Salt River Road. The map supplied by the District did not appear to concur with the boundaries stated in the Anderson County Court Orders for the utility. The map included with this report corresponds to the court orders, and includes more area than the District indicated on its own map. Commission records indicate that Stringtown has never applied for a Certificate of Public Convenience and Necessity, though several rate cases have been filed by the District over the years.

Stringtown does not indicate in its 1985 annual report that the District has any outstanding long-term debts, though it owes \$1000 to The Lawrenceburg National Bank. The District is currently serving 166 customers, and sold 13,310,700 gallons of water to South Anderson in 1985. This was approximately two million gallons more than it sold in its own territory. Based on a 1973 report by the Bluegrass Area Development District ("Bluegrass ADD"), the District has increased in size by 31 customers in the last 13 years. Stringtown purchases all of its water from the City of Lawrenceburg, and has no treatment facilities of its own.

Stringtown has no apparent plans for expanding its system, though it has had repeated requests for service from citizens on Salt River Road. In both 1984 and 1986 the Commission requested that the District respond to the requests. Stringtown did not file a written response to the requests until it was specifically told it must by one of the Commission staff members. The District states that these people are outside its boundaries, and that it has no obligation to consider serving them. A detailed field investigation would be required to determine if any of the property of those individuals requesting service is indeed contained within the District's boundaries.

Alton Water District

Alton was established in 1962 by the Anderson County Court, in accordance with the provisions of KRS Chapter 74. In 1962, under Case No. 4091, the District applied for and received a Certificate of Public Convenience and Necessity. The boundaries have not been modified during the existence of the District, and the area of service is indicated in Figure 1.

Based on information supplied by the District, 351 customers are served, 341 of whom are residential, and 10 of whom are commercial. The District utilized approximately 21,893,400 gallons of water in 1985. Based on the Bluegrass ADD report previously mentioned, Alton has added about 86 new customers since

1973, when it had 265. Alton is currently purchasing all of its water from the City of Lawrenceburg.

Alton has a debt with the FMHA of \$76,000 in the form of bond issues. A principal of \$4,000 per year is paid on the debt.

Alton is also in the process of building a sewage treatment facility, the debt of which is not considered in this report. The proposed sewage system was not included in this review of the District's operations.

EXISTING MANAGEMENT AND OPERATIONS

South Anderson Water District

The South Anderson Water District is supervised by a Board of three Water District Commissioners, appointed by the Anderson County Judge Executive. They are:

Alton Warford	Chairman	Anderson County
George Kinne	Secretary	Anderson County
Bob Kincer	Treasurer	Anderson County

The management of the District is supervised and transacted by the Commissioners, who each receive an annual salary of \$1500. The District contracts with Ray Edelman, attorney, for legal representation on an hourly basis. The District contracts on an hourly basis with Thomas H. Smith, CPA, of Farmer & Humble, for accounting work in preparing its annual report.

The operation and management plan submitted by the District, indicates that the meter reader will be hired by contract on a monthly basis. Further a general maintenance man is employed to provide 24 hour a day service. This service would include setting, connecting and disconnecting water meters. Currently, Alton Warford serves as both meter reader, and maintenance person. The fee paid for meter reading is \$.45 per meter.

Fox Creek Rural Electric Cooperative Corporation performs the billing, collection, maintenance of books and records, and preparation and submission of reports to FmHA and the PSC for the District. Further Fox Creek prepares all invoices, statements of accounts, and bills acquired by the District.

Stringtown Water District

Stringtown Water District is supervised by a Board of three Water District Commissioners appointed by the Anderson County Judge Executive. They are:

William Hunt	Chairman	Anderson County
Ernest L. Hunt	Treasurer & Secretary	Anderson County
John Brooks	Commissioner	Anderson County

Based on the descriptions provided by the Chairman of the District, William Hunt handles the District's customer complaints, requests for service, contract work, and the taking and supplying of samples to the Kentucky Division of Water. Ernest Hunt handles payment of the District expenses. While the annual report shows

the Commissioners receiving monetary compensation for their services, the Chairman states that none of the Commissioners actually take the salary. William Hunt does, however, receive \$480 annually to read the District water meters. Ellis Collins does the District bookkeeping for an annual salary of \$1200. Rose Stratton receives \$900 annually for rental of space to the District.

Alton Water District

Alton Water District is supervised by a board of three Water District Commissioners appointed by the Anderson County Judge Executive. They are:

Harry Towles	Chairman	Anderson County
Noal Cotton	Secretary	Anderson County
John Ried	Treasurer	Anderson County

The District's lines are maintained, and its meters read by Aubrey Moffett. Meter readings are compiled by Buddy Hughes, who also handles the billing and water sampling for the District. Tom Smith, CPA, is currently employed by the District to do an audit of their accounts.

CURRENT REVENUES AND EXPENSES

A three year comparison of the annual reports for Alton Water District, Stringtown Water District, and South Anderson Water District did not reveal any major deficiencies and are sufficiently consistent to not warrant a financial audit of either system at this time. The two districts that have long-term debts

with FmHA both appear to be current in their principal and interest payments on their bonded indebtedness and in maintaining adequate cash reserves and temporary investments to meet bond ordinance requirements.

Alton Water District

Alton Water District's 1985 annual report to the Commission listed total operating revenues of \$48,111, operating expenses of \$44,838 and a reported net income of \$148. A cash flow analysis including other income, principal and interest payments on outstanding obligations, and excluding depreciation expense, results in a positive cash flow of \$2,620. The unadjusted operations of the District give a Debt Service Coverage ("DSC") of .45X excluding interest income. After excluding depreciation on contributed property the DSC is .92X.

Alton purchased 24,614,200 gallons of water in 1985 and sold 21,893,400 gallons. The unaccounted-for water was reported to be 10.04 percent. Average sales per residential customer amounted to approximately 5,225 gallons per month, and approximately 51,240 gallons per month for its commercial customers. The District's tariff for water sales is listed below:

Monthly Water Rates

First 2,000 gallons	\$6.00 Minimum Bill
Next 2,000 gallons	\$2.00 per 1,000 gallons
Next 2,000 gallons	\$1.60 per 1,000 gallons
Next 4,000 gallons	\$1.20 per 1,000 gallons
Over 10,000 gallons	\$1.00 per 1,000 gallons

South Anderson Water District

South Anderson Water District's 1985 annual report to the Commission listed total operating revenues of \$82,393, operating expenses of \$82,422 and a reported net loss of \$8,463. A cash flow analysis including other income, principal and interest payments on outstanding obligations, and excluding depreciation expense, results in a positive cash flow of \$2,719. The unadjusted operations of South Anderson result in a negative Debt Service Coverage ("DSC"). After excluding depreciation on contributed property the DSC is .57X.

The District purchased 39,014,964 gallons of water in 1985 and sold 35,600,440 gallons. The unaccounted-for water was reported to be 8.75 percent. Average sales per residential customer amounted to approximately 7,027 gallons per month. The District's tariff for water sales is listed below:

Monthly Water Rates

5/8" X 3/4" Meter

First 2,000 gallons	\$7.00 Minimum Bill
Next 1,000 gallons	\$3.00 per 1,000 gallons
Next 2,000 gallons	\$2.50 per 1,000 gallons
Next 2,000 gallons	\$2.00 per 1,000 gallons
Next 3,000 gallons	\$1.50 per 1,000 gallons
Over 10,000 gallons	\$1.00 per 1,000 gallons

3/4" Meter

First 3,000 gallons	\$10.00 Minimum Bill
Next 2,000 gallons	\$2.50 per 1,000 gallons
Next 2,000 gallons	\$2.00 per 1,000 gallons
Next 3,000 gallons	\$1.50 per 1,000 gallons
Over 10,000 gallons	\$1.00 per 1,000 gallons

1" Meter

First 5,000 gallons	\$15.00 Minimum Bill
Next 2,000 gallons	\$2.00 per 1,000 gallons
Next 3,000 gallons	\$1.50 per 1,000 gallons
Over 10,000 gallons	\$1.00 per 1,000 gallons

1 1/2" Meter

First 10,000 gallons	\$23.50 Minimum Bill
Over 10,000 gallons	\$ 1.00 per 1,000 gallons

2" Meter

First 16,000 gallons	\$29.50 Minimum Bill
Over 16,000 gallons	1.00 per 1,000 gallons

Stringtown Water District

Stringtown Water District's 1985 annual report to the Commission listed total operating revenues of \$31,417, operating expenses of \$25,640 and a reported net income of \$5,256. The net income of Stringtown is misleading, however, since its 1985 Annual Report indicates it sold more water than it purchased. The staff utilized Stringtown's average line loss for the previous 3 years, and its reported test period sales, to estimate the possible 1985 water purchases. After adjusting for this estimate of water purchased, the District would have had a net loss of \$2,005 for 1985. A cash flow analysis of the staff adjusted operations, including principal and interest payments on outstanding obligations, and excluding depreciation expense, results in a positive cash flow of \$812.

The staff estimated that Stringtown purchased 27,545,100 gallons of water in 1985. This estimate was based on an

unaccounted-for water loss of 10.38 percent, which was the average of reported loss for the previous three years. Stringtown reported 19,319,500 gallons purchased, and 24,685,928 gallons sold and zero line loss. Average sales per residential customer amounted to approximately 4,777 gallons per month, approximately 18,092 gallons per month for its commercial customers, and approximately 1,109,225 gallons per month to the South Anderson Water District. The District's tariff for water sales is listed below:

Monthly Water Rates

First 2,000 gallons	\$4.94 Minimum Bill
Next 3,000 gallons	\$1.22 per 1,000 gallons
Next 5,000 gallons	\$1.12 per 1,000 gallons
Over 10,000 gallons	\$1.08 per 1,000 gallons

Wholesale Rate for
South Anderson

\$0.94 per 1,000 gallons

ANALYSIS OF MERGER FEASIBILITY

In 1972, the General Assembly of the Commonwealth of Kentucky enacted as a legislative finding of fact that the reduction of the number of operating water districts in the Commonwealth was in the public interest. The legislature further stated that the merger of such districts would tend to eliminate wasteful duplication of costs and efforts, result in a sounder and more businesslike degree of management, and would ultimately result in greater economies, less cost, and a higher degree of service to the general public. KRS 74.361 declares that the public policy favors

the merger of water districts whenever feasible. Consolidation has also been recommended by other government agencies concerned about the long-range viability of the state's rural water utilities.

In 1973, the Bluegrass ADD published its Regional Water and Sewer Plan, under contract with the Commonwealth. The publication was prepared as a comprehensive planning recommendation for land and water use in a 17 county area of the state, and was part of a state-wide program of all the area development districts. The plan included both immediate and long-range (5-20 year) goals for the Bluegrass ADD counties, which includes Anderson County. The comments and recommendations made in the plan were with regard to improving and expanding the county water systems. Among its goals, the report considered the quality of water in the Bluegrass ADD, and recommended how best to conserve and protect the water resources of the state. Further, the report stressed planning which would optimally utilize federal, state, and local revenues in providing good water service. Then, as now, it was understood that the cost of improving existing water systems and providing service to new rural customers would continue to increase.

Bluegrass ADD stated in its report that in order to reduce the impact of extending service, and improving existing water services, economies of scale must be implemented. The report stated in part, "To this end, greater use should be made of

existing systems and administrative entities by confederating and/or merging existing utilities within one county and incorporating extensions of service into these existing operations—even where not adjacent."³

With regard to Anderson County, the report recommended that Stringtown be absorbed by the City of Lawrenceburg, that Alton expand, and that a district be established to serve South Anderson. The report also noted that Lawrenceburg is, and will continue to be for the foreseeable future, the only source of treated water in Anderson County.

South Anderson Water District was not in existence at the time of the report, but its establishment was recommended. Since its creation, the District has grown to serve a number of the areas recommended in Bluegrass ADD report. Further, the District has plans to extend to other parts of the county that were indicated as needing service in the 1973 document. South Anderson has, in effect, done most of the things recommended in the report, or has plans to do these things. South Anderson also plans on expanding north of the City of Lawrenceburg, where the Bluegrass ADD recommended that Alton Water District expand.

³ Page 29, paragraph 13, Bluegrass Area Development District Regional Water and Sewer Plan.
Prepared by: Bluegrass Area Development District
Under contract with: Office for Local Government, Department, of Finance and Administration, Commonwealth of Kentucky, June 30, 1973.

Report - The Proposed Merger, C.N. 9553
Page 18
August 22, 1986

In its report, the Bluegrass ADD recommended that Alton immediately expand to serve customers in both Ninevah and Tyrone, in Anderson County. This was never done. Ninevah is, however, one of the towns that South Anderson indicates it plans on expanding to serve. The 1973 report recommended other extensions by Alton, such as an expansion to serve customers in Avenstoke, which is within two miles of Alton's north end. Though it did not respond to this part of the Commission request for information, it appears that Alton does not intend to expand toward Avenstoke, Ninevah, or Tyrone. South Anderson appears to have been created, in part, because Stringtown refused to expand to serve that area of the county. Both Stringtown and Alton have apparently emphasized the maintenance of low water rates for their existing customers to the point of excluding any expansion of their service areas to serve additional citizens in the county.

The source of raw water in Anderson County is the Kentucky River, with its water being treated by the City of Lawrenceburg. The City treatment facility has a maximum capacity of 2.25 million gallons per day (MGD), with an average current production rate of 1.4-1.5 MGD. Based on their annual reports, the districts' average consumption of water totals less than 0.2 MGD. The City Engineer commented, however, that peak summer usage has gone as high as 2.0 MGD, so capacity will also pose a problem for future expansion. Currently, it is practically impossible for any

portion of the county that is presently without water service to receive it without going through, or around, an existing water district or system. Those people living close to Lawrenceburg have water, and those living away from that city have no recourse but to extend lengthy piping systems to get service for themselves.

The most critical issue involved in the successful merger of the three districts will be the assignment or transfer of the various debt instruments. FmHa, a federal agency, is the holder of the major debts on South Anderson and Alton. FmHA is currently involved in other mergers, and has indicated its ability to work with districts that are being consolidated. Stringtown has no long-term debt, so debt consolidation is not an issue.

Although the precise means by which merger of the two districts' debts could be accomplished would depend upon the recommendations of bond counsel, one method discussed in other cases was a bond exchange. Under this method, FmHA would essentially accept bonds of the merged district in exchange for the bonds it currently holds on the two districts owing them money. Another alternative would be the defeasement of the existing bonds by a new bond issue, in conjunction with a construction case. Such a case might soon arise as a result of South Anderson's plans for expansion. A third alternative might

Report - The Proposed Merger, C.N. 9553
Page 20
August 22, 1986

be to continue retiring them from the revenues yielded from the existing areas over which they were drawn.

CONCLUSIONS AND RECOMMENDATIONS

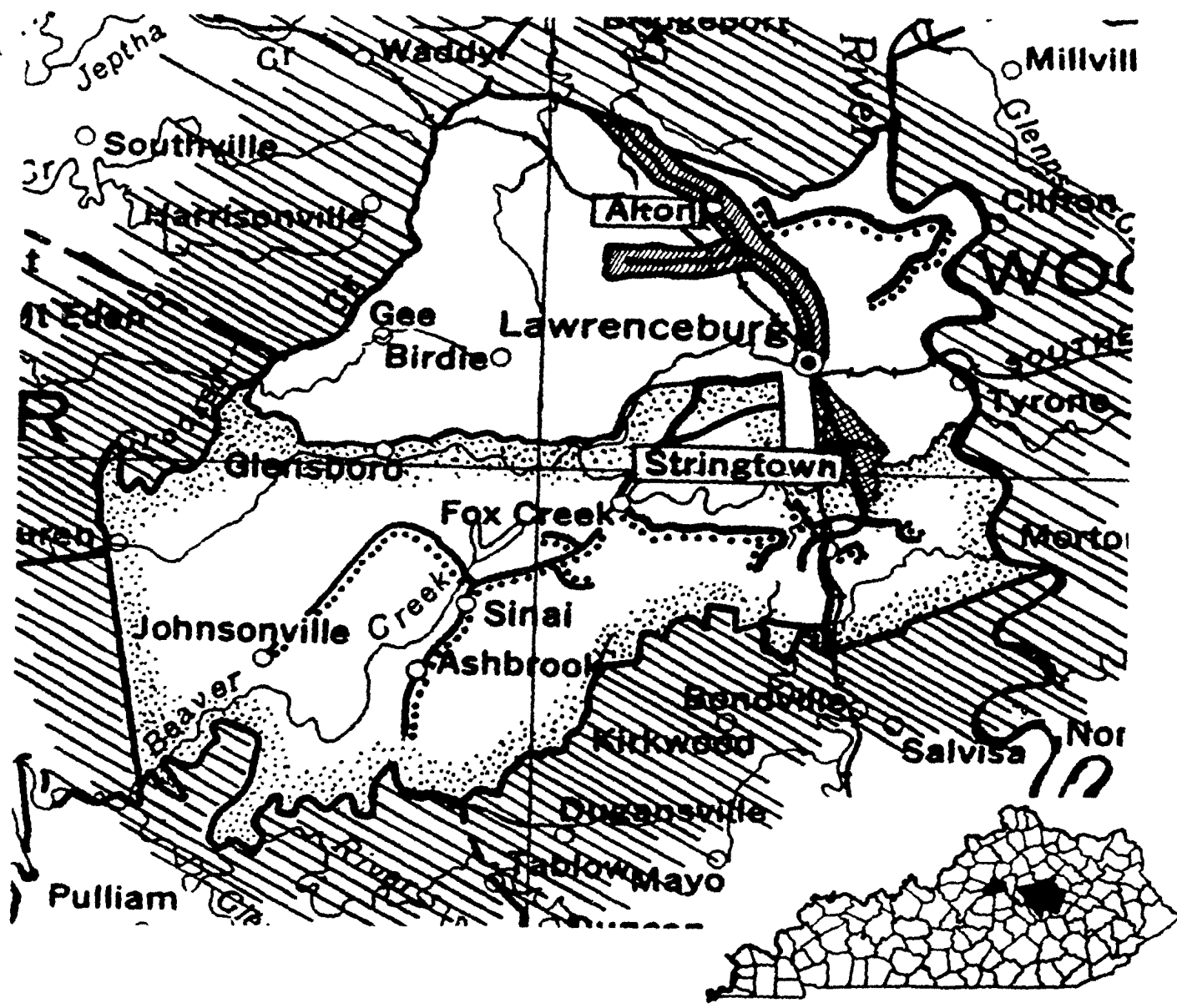
This report concludes, as did the General Assembly in 1972, and the Bluegrass ADD report of 1973, that the merger of water districts is in the public interest. It is also determined that it is feasible and advisable to merge the Alton Water District, the South Anderson Water District, and the Stringtown Water District.

It is anticipated that there will be some opposition to merger including a request from some parties that merger be delayed until a future date, or that merger be abandoned altogether. This has occurred in past cases. Nevertheless, this report concludes that the three districts should be merged at this time.

This report should be entered into the record in this matter to meet the requirements of KRS 74.361 for a written report and study of those mergers proposed by this Commission. A formal hearing on the proposed merger should be held as soon as possible.

Submitted,
August 22, 1986





Eddie B. Smith, Manager
Water and Sewer Branch



WATER DISTRICT

- Alton
- South Anderson
- Stringtown

BOUNDARY

- 
- 
- 



- Waterline: 
- Proposed Waterline: 

FIGURE NO. 1

Anderson County