

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST CASEY COUNTY)	
WATER DISTRICT FOR APPROVAL OF A)	
REVENUE LEASE AGREEMENT IN AN)	
AGGREGATE PRINCIPAL AMOUNT NOT TO)	CASE NO. 2013-00104
EXCEED \$3,750,000 FOR THE PURPOSE OF)	
REFINANCING ITS OUTSTANDING WATER)	
DISTRICT REFUNDING AND REVENUE BONDS)	

ORDER

East Casey County Water District (“East Casey District”) has applied for approval to enter into a lease agreement with Kentucky Bond Corporation (“KBC”) in an amount not to exceed \$3,750,000.¹ East Casey District intends to use the proceeds from the lease agreement to refund its outstanding bonded debt.

Having considered the record and being otherwise sufficiently advised, the Commission finds that:

1. East Casey District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that distribute water to 4,418 customers in Casey and Lincoln counties, Kentucky.²

¹ East Casey District tendered its application on April 17, 2013. In its application, it requested a deviation from 807 KAR 5:001, Section 17(2)(a). On May 14, 2013, the Commission granted this request and accepted the application for filing. No person or entity has sought intervention in this proceeding.

² *Annual Report of East Casey County Water District for the Year Ended December 31, 2011* at 5, 27.

2. As of December 31, 2012, East Casey District had outstanding bonded debt of \$3,111,500, all of which Rural Development ("RD") holds.³

3. KBC is a non-profit, non-stock corporation created by an interlocal agreement between certain public agencies⁴ to "create a system for funding, financing, or refinancing various governmental purposes."⁵

4. East Casey District proposes to enter a lease agreement with KBC pursuant to the Governmental Leasing Act.⁶

a. Under the terms of this agreement, KBC will issue bonds, a portion of whose proceeds will be used to refund East Casey District's outstanding bonded debt.

b. In return for these proceeds, East Casey District will execute a lease with KBC for a 25-year period for the facilities whose costs were originally financed through East Casey District's existing bonded debt and refinanced through

³ Ray, Foley Hensley & Company, PLLC, *East Casey County Water District Financial Statements December 31, 2012 and 2011* (Mar. 7, 2013) at 7-8. A list of East Casey District's existing bonded debt appears below.

Series	Annual Interest Rate (%)	Outstanding Principal
1987	5.00	\$ 185,000
1990	5.00	345,000
1993	4.50	303,000
1997	4.50	432,000
2000	4.50	518,000
2004	4.50	373,000
2007	4.38	955,000
Total		\$3,111,500

⁴ For a listing of the participating public agencies, see <http://kybondcorp.org> (last visited May 29, 2013).

⁵ Articles of Incorporation of Kentucky Bond Corporation, Art. II, *available at* [https://app.sos.ky.gov/ftshow/\(S\(hirshjqpbwkj4byuxqwfq4ty\)\)/genpdf.aspx?ctr=4443875](https://app.sos.ky.gov/ftshow/(S(hirshjqpbwkj4byuxqwfq4ty))/genpdf.aspx?ctr=4443875) (last visited May 31, 2013).

⁶ KRS 65.940- 956.

KBC's bond issuance. East Casey District will make annual lease rental payments during the 25-year period.

c. East Casey District retains legal title to the facilities,⁷ but pledges and grants to KBC a lien and security interest in all system revenues.⁸ KBC's security interest terminates upon completion of the required lease rental payments.

5. East Casey District estimates that the sum necessary to retire its outstanding bonded debt and to pay its share of the costs of the bond issuance is \$3,530,000.⁹

6. The proposed lease agreement will require East Casey District to make an annual lease rental payment, which contains a principal component and an interest component, for 25 years. Interest on the outstanding principal will accrue at a rate that ranges from 0.6 percent to 3.5 percent annually.¹⁰

7. The annual lease rental payment includes fiduciary fees that are equal to approximately 0.27 percent of the outstanding principal.¹¹

8. East Casey District estimates that the execution of the proposed lease agreement and the refund of its outstanding bonded debt will result in gross savings of \$711,642 and net present value savings of \$249,996.¹²

⁷ See KRS 65.952; Lease Agreement § 4.

⁸ Lease Agreement, Ex. G § 14.

⁹ App. Ex. A at 2. \$61,775 (Underwriter's Discount) + \$70,600 (Cost of Issuance) + \$3,217,641 (Deposit to Current Refunding Fund) + 176,500 (Deposit to Debt Service Reserve Fund) + \$3,484 (Rounding) = \$3,530,000.

¹⁰ App. Ex. A at 1.

¹¹ *Id.*

¹² App. ¶ 2.

9. East Casey District's execution of the proposed lease agreement with KBA is for a lawful object within its corporate purpose, is reasonably necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair East Casey District's ability to perform that service, and is reasonably necessary and appropriate for such purpose.

IT IS THEREFORE ORDERED that:

1. East Casey District is authorized to enter into the proposed lease agreement with KBC for the purpose of refunding the outstanding indebtedness, provided that the principal amount of the lease agreement does not exceed \$3,750,000 and the terms and conditions of the lease agreement will produce both positive gross savings and net present value savings.

2. If the actual terms and conditions of the lease agreement differ from those set forth in East Casey District's application, East Casey District shall, within 30 days of executing the lease agreement, file with the Commission amortization schedules and work papers showing the actual gross savings and net present value savings that will result from execution of the lease agreement and refunding of its outstanding bonded debt.

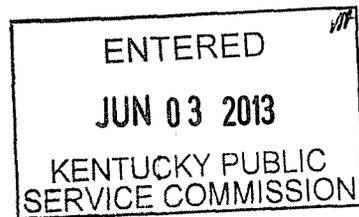
3. Within 30 days of executing the proposed lease agreement, East Casey District shall file a copy of the executed lease agreement and any documents referenced in the lease agreement that East Casey District has not previously filed with the Commission.

4. The proceeds from the execution of the lease agreement shall be used only for the lawful purposes specified in East Casey District's application.

5. Any documents filed pursuant to ordering paragraphs 2 and 3 of this Order shall reference the number of this case and shall be retained in the utility's general correspondence file.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

By the Commission



ATTEST:



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