

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ESTILL)
COUNTY WATER DISTRICT NO. 1 TO)
AMEND THE PUBLIC SERVICE) CASE NO. 2019-00087
COMMISSION'S ORDER OF DECEMBER 21,)
2018 IN CASE NO. 2018-00276)

APPLICATION

Pursuant to KRS 278.300, KRS 278.390, and 807 KAR 5:001, Estill County Water District No. 1 (“Estill District”) applies to the Public Service Commission (“Commission”) for an Order amending the Commission’s Order of December 21, 2018 in Case No. 2018-00276¹ to permit Estill District to issue a promissory note to consolidate four existing loans with Citizens Guaranty Bank of Irvine, Kentucky (“Citizens Guaranty Bank”) under terms that differ from those set forth in the Order of December 21, 2018.

In support of its Application, Estill District provides the following:

1. The full name and post office address of Estill District is: Estill County Water District No. 1, 76 Cedar Grove Road, Irvine, Kentucky 40336. Its e-mail address is: a.miller@estillcountywater.com.
2. Copies of all orders, pleadings and other communications related to this proceeding should be directed to:²

¹ *Electronic Application of Estill County Water District No. 1 for Authorization to Consolidate Its Existing Loans with Citizens Guaranty Bank*, Case No. 2018-00276 (Ky. PSC Dec. 21, 2018).

² On March 7, 2019 pursuant to 807 KAR 5:001, Section 8, Estill District notified the Public Service Commission of its election of the use of electronic filing procedures for this proceeding.

Audrea Miller
Office Manager
76 Cedar Grove Road
Irvine, Kentucky 40336
(606) 723-3795
a.miller@estillcountywater.com

3. Estill District is not a corporation, limited liability company or limited partnership. It has no articles of incorporation or partnership agreements.

4. Estill District is a water district created under the provisions of KRS Chapter 74.

5. On December 4, 2018, Estill District applied to the Commission for authorization to consolidate four existing loans with Citizens Guaranty Bank, totaling approximately \$238,712, and to issue a promissory note reflecting the consolidation of these loans that is payable over a longer term than the existing loans and at a lower rate of interest than the existing loans. The Commission docketed that application as Case No. 2018-00276. Estill District incorporates by reference that application into this Application.

6. In its application in Case No. 2018-00276, Estill District represented that the promissory note for which authorization was sought would have the following terms: (1) The promissory note would have an initial interest rate of 3.00 percent per annum and be payable over a period not to exceed 10 years; (2) The promissory note's interest rate would be subject to adjustment to the current market rate of interest on the third and seventh anniversaries of its issuance with an adjusted interest rate of not less than three percent and not more than the interest rate on two-year U.S. Government Treasury Notes auctioned most recent to the loan anniversary date plus 150 basis points; (3) The promissory note would be secured in the same manner as the existing loans; and (4) Estill District may retire the promissory note in advance without penalty. The proposed consolidation was an integral part of an agreement between Estill District and Rural Development ("RD") to reamortize the principal and interest on revenue

bonds that Estill District had issued to RD, to adjust those bonds' interest rates, and to reschedule their payment.

7. On December 21, 2018, the Commission issued an Order in Case No. 2018-00276 authorizing Estill District to consolidate its four existing loans with Citizens Guaranty Bank and to issue a promissory note to Citizens Guaranty Bank under the terms set forth in Estill District's application.

8. After the issuance of the Order of December 21, 2018, Citizens Guaranty Bank advised Estill District of its plan to consecutively issue three promissory notes to replace the existing four loans. The first note would be for a term of three years, have an interest rate of three percent, and require a monthly payment based upon the total amount owed for the existing four loans amortized over ten years. The final payment on this note would be for the note's remaining balance. It was assumed that for the final payment on the first note, Estill District would pay only the monthly payment and the remaining balance would be refinanced through the issuance of a second note. The second note would be for a term of four years, have an interest rate adjusted to reflect the current market rate, and require a monthly payment that continued to reflect the amortization of the total amount of the consolidated loans over a ten-year period. At the end of four years (or at the end of Year 7), the remaining balance on the second note would be refinanced through the issuance of a three-year note with an adjusted interest rate reflecting then market conditions.

9. Estill District informed Citizens Guaranty Bank that the Commission had not authorized this arrangement and, without such authorization, issuance of the proposed notes would violate KRS 278.300. Citizens Guaranty Bank then reviewed its loan processing systems

and determined that it could not issue, process, and monitor a loan containing the terms to which it originally agreed.

10. Citizens Guaranty Bank has now proposed to substitute the following terms for the original terms: (1) The existing four loans will be consolidated into one note payable over ten years at an initial interest rate of three percent per annum, with the interest rate adjusted to the current federal prime interest rate minus 250 basis points every three years; (2) The interest rate may not decrease or increase more than two percent at any adjustment; (3) At no time may the note's interest rate be less than three percent or greater than eight percent; and (4) No penalty will be assessed if the note is prepaid. A copy of Citizens Guaranty Bank's proposal is attached to this Application as **Exhibit 1**.

11. Estill District's Board of Commissioners has accepted the revised terms subject to the Commission's approval of those terms. A copy of the Resolution accepting the revised terms and authorizing the filing of this Application is attached as **Exhibit 2**.

12. The Kentucky State Director of RD's Water and Waste Disposal Loan and Grant Program has reviewed Citizens Guaranty Bank's revised terms, found them consistent with RD's agreement with Estill District regarding the restructuring of Estill District's bonds, and concurs with Estill District's acceptance of the revised terms.³ His electronic mail message regarding the revised terms is attached to this application as **Exhibit 3**.

13. The revised terms are comparable to the original terms. The initial interest rate of three percent for the note's first three years is unchanged. Unlike the original proposal, however, the revised proposal places a strict ceiling on the note's interest rate. The original proposal

³ On December 31, 2018, Estill District issued six series of replacement bonds to replace and substitute for its existing outstanding bonds that RD held. Each replacement bond series will mature in 40 years and is at the same or a lower rate of interest than the original series.

permitted the adjusted interest rate to exceed eight percent per annum and did not provide a strict limit on interest rate adjustments.

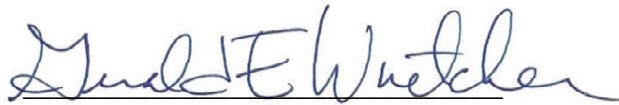
14. Estill District's execution of a promissory note with Citizens Guaranty Bank under the revised terms to consolidate and refinance its existing promissory notes with Citizens Guaranty Bank is for a lawful objective within Estill District's corporate purposes, and is necessary, appropriate for, and consistent with Estill District's proper performance of its service to the public. It will not impair Estill District's ability to perform that service and is reasonably necessary and appropriate for such purpose.

WHEREFORE, Estill County Water District No. 1 requests that the Commission:

1. Enter an Order amending the Order of December 21, 2018 in Case No. 2018-00276 to authorize Estill District to consolidate its existing loans with Citizens Guaranty Bank and execute a new promissory note payable over a period of 10 years at an initial rate of three percent per annum and subject to the conditions set forth in Citizens Guaranty Bank's revised terms; and
2. Grant any and all such other relief to which Estill District may be entitled.

Dated: March 15, 2019

Respectfully submitted,




Gerald E. Wuetcher
Stoll Keenon Ogden PLLC
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507-1801
Telephone: (859) 231-3017
Fax: (859) 259-3517
gerald.wuetcher@skofirm.com

Counsel for Estill County Water District No. 1

COMMONWEALTH OF KENTUCKY)
) SS
COUNTY OF ESTILL)

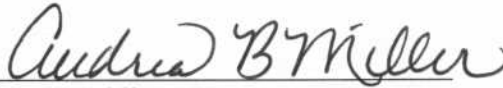
The undersigned, Blain Click, being duly sworn, deposes and states that he is the Chairman of Estill County Water District No. 1, the Applicant in the above proceedings; that he has read this Application and has noted its contents; that the same is true of his own knowledge, except as to matters which are therein stated on information or belief, and as to those matters, he believes same to be true.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on this March 8, 2019.


Blain Click
Chairman, Board of Commissioners
Estill County Water District No. 1

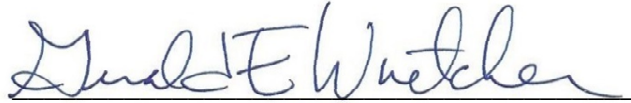
Subscribed and sworn to before me by Blain Click in his capacity as Chairman of Estill County Water District No. 1 on this March 8, 2019.

My Commission expires: Sept. 10, 2022.


Notary Public
Notary ID: 608524

CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, I certify that Estill County Water District No. 1's electronic filing of this Application is a true and accurate copy of the same document being filed in paper medium; that the electronic filing was transmitted to the Public Service Commission on March 15, 2019; that there are currently no parties that the Public Service Commission has excused from participation by electronic means in this proceeding; and that on or before March 19, 2019 this Application in paper medium will be delivered to the Public Service Commission.

A handwritten signature in blue ink that reads "Gerald E. Wuetcher". The signature is written in a cursive style with a horizontal line underneath the name.

Gerald E. Wuetcher

EXHIBIT 1



www.MyCGB.com • Member FDIC

P.O. Box 630 • 25 River Drive
Irvine, Kentucky 40336
606-723-2139

West Irvine Plaza
Irvine, Kentucky 40336
606-723-2138

February 26, 2019

Attention: Gerald E. Wuetcher
Attorney f/b/o Estill County Water District #1
Stoll, Keenon, and Ogden PLLC
300 W. Vine Street, Ste. 2100
Lexington, Kentucky 40507-1801

Dear Mr. Wuetcher:

Citizens Guaranty Bank (“CGB”) has previously offered to consolidate Estill County Water District No. 1’s (“Estill District”) outstanding loans into one loan amortized over ten years at an initial interest rate of three percent per annum, with the interest rate adjusted to the current market interest rate at the end of the third and seventh years of the loan. The adjusted interest rate could not be lower than three percent or greater than the most recent rate for two-year federal treasury notes plus 1.5 percent. Estill District would not be subject to any penalty if it elected to prepay the note.

To implement this proposal, CGB intended to split the consolidated loan into three notes. The first note would be executed immediately and have a term of three years. It would have a monthly payment based upon the total amount amortized over ten years with an interest rate of three percent per annum. The last payment on this note would be for the note’s remaining balance. A new note at the adjusted interest rate and with a term of four years would then be executed. The monthly payment of the second note would reflect the principal amount of the consolidated loans amortized over a ten year period at the adjusted interest rate. At the end of four years, a new note for a term of three years would be executed reflecting the market rate at that time for the remaining principal amount. At the end of this note, the present-day balance on Estill District’s loans would have been repaid.

You have advised that this arrangement is not consistent with the terms that the Public Service Commission approved in its Order of December 21, 2018 and that a 10-year note was required. CGB’s computer software is not designed to write and process a loan with the agreed terms. Accordingly, it proposes to substitute the following terms for the original proposal:



www.MyCGB.com • Member FDIC

P.O. Box 630 • 25 River Drive
Irvine, Kentucky 40336
606-723-2139

West Irvine Plaza
Irvine, Kentucky 40336
606-723-2138

The existing loans will be consolidated into one note payable over ten years at an initial interest rate of three percent per annum, with the interest rate adjusted to the current federal prime interest rate minus 2.5 percent every three years. The adjusted interest rate may not decrease or increase more than two percent over the existing interest rate. At no time may the note's interest rate be less than three percent or greater than eight percent. Estill District will not be subject to any penalty if it elects to prepay the note.

I believe that these terms are comparable to those to which we originally agreed and will accomplish Estill District's objectives.

Please advise if the substituted terms are acceptable. If they are acceptable, CGB will prepare the required loan documents and will execute them upon receiving evidence that the Kentucky Public Service Commission has authorized Estill District to issue a promissory note containing those terms.

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael D. Wilson".

Michael D. Wilson
President

EXHIBIT 2

**A RESOLUTION OF THE BOARD OF COMMISSIONERS OF
ESTILL COUNTY WATER DISTRICT NO. 1 AUTHORIZING
REVISIONS TO THE PROPOSED RESTRUCTURING OF EXISTING
LOANS WITH CITIZENS GUARANTY BANK OF IRVINE,
KENTUCKY AND AN APPLICATION TO THE PUBLIC SERVICE
COMMISSION FOR AUTHORIZATION TO ISSUE A PROMISSORY
NOTE CONTAINING THOSE REVISIONS**

RESOLUTION NO. 2019-1

WHEREAS, Estill County Water District No. 1 (“Estill District”) has several outstanding promissory notes issued to Citizens Guaranty Bank of Irvine, Kentucky (“Citizens Guaranty Bank”);

WHEREAS, in August 2018 Estill District reached an agreement with Citizens Guaranty Bank to consolidate the outstanding amounts owed on the promissory notes which Citizens Guaranty Bank holds into one promissory note payable over ten years;

WHEREAS, on December 4, 2018, Estill District applied to the Public Service Commission for authorization to issue such promissory note to Citizens Guaranty Bank;

WHEREAS, the Public Service Commission docketed Estill District’s application as Case No. 2018-00276;

WHEREAS, on December 21, 2018, the Public Service Commission issued an order in Case No. 2018-00276 in which it authorized Estill District to issue a promissory note to Citizens Guaranty Bank under the terms set forth in Estill District’s application;

WHEREAS, Citizens Guaranty Bank has since advised Estill District that it cannot enter a loan agreement with Estill District under the terms set forth in Estill District’s application but has offered to enter a loan agreement under comparable terms;

WHEREAS, under Citizens Guaranty Bank’s alternative proposal, the remaining amounts owed on outstanding Estill District promissory notes held by Citizens Guaranty Bank would be consolidated into one note payable over ten years at an initial interest rate of three percent per annum subject to the following conditions: (1) the note’s interest rate would be adjusted to the current federal prime interest rate minus 2.5 percent every three years, (2) the adjusted interest rate could not decrease or increase more than two percent over the existing interest rate; (3) at no time could the note’s interest rate be less than three percent or greater than eight percent; and (4) no penalty would be imposed if Estill District paid the note in advance of note’s payment schedule;

WHEREAS, the terms of Citizens Guaranty Bank’s alternative proposal are comparable to those in its original proposal;

WHEREAS, KRS 278.300 requires Estill District to obtain the authorization of the Public Service Commission prior to issuing to Citizens Guaranty Bank any promissory note whose terms differ from those set forth in Estill District’s original application;


NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD OF COMMISSIONERS OF ESTILL COUNTY WATER DISTRICT NO. 1 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 Chairman is hereby authorized and directed to execute and file with the Public Service Commission at the earliest possible date an application for authorization to issue a promissory note to Citizens Guaranty Bank containing the terms set forth in Citizens Guaranty Bank's alternative proposal, or an appropriate motion requesting that the Order of December 21, 2018 in Case No. 2018-00276 be amended to permit the issuance of a promissory note to Citizens Guaranty Bank under such terms.

Section 3. Upon the Public Service Commission's issuance of authorization to Estill District to issue a promissory note to Citizens Guaranty Bank containing the terms set forth in Citizens Guaranty Bank's alternative proposal, the Chairman is authorized to execute on Estill District's behalf such a promissory note.

ADOPTED BY THE BOARD OF COMMISSIONERS OF ESTILL COUNTY WATER DISTRICT NO. 1 at a meeting held on February 6, 2019 signed by the Chairman, and attested by the Secretary.



Chairman

ATTEST:



Secretary

EXHIBIT 3

Wuetcher, Gerald

From: Hollinsworth, Anthony - RD, Lexington, KY <anthony.hollinsworth@ky.usda.gov>
Sent: Tuesday, February 05, 2019 11:35 AM
To: Wuetcher, Gerald
Subject: RE: Estill County Water District No. 1: Loans with Citizens Guaranty Bank of Irvine, Kentucky

Jerry:

RD is agreeable to the proposed terms for the CGB debt. In essence, this proposal is roughly the same as originally agreed to. The term is still 10 years, and the initial interest rate for the first three years is the same 3%. Changing the standard that the rate is tied to (the prime rate minus 2.5% versus the treasury note rate plus 1.5%) does not really impact the loan repayment in any way that should be detrimental to the Water District. In fact, it could be advantageous to the Water District.

RD is in concurrence with this proposal.

Thanks,

Anthony

From: Wuetcher, Gerald <Gerald.Wuetcher@skofirm.com>
Sent: Tuesday, February 5, 2019 11:12 AM
To: Hollinsworth, Anthony - RD, Lexington, KY <anthony.hollinsworth@ky.usda.gov>
Subject: Estill County Water District No. 1: Loans with Citizens Guaranty Bank of Irvine, Kentucky

Anthony:

This message is to advise of potential revisions to the proposed restructuring of Estill County Water District No. 1's loans with Citizens Guaranty Bank of Irvine, Kentucky ("CGB") and to obtain Rural Development's ("RD") position on these revisions.

Estill District currently has four outstanding loans with CGB totally approximately \$230,000. As part of its application to reamortize and reschedule the payment of its RD loans, Estill District represented to RD that CGB had agreed to consolidate these loans into a single note payable over 10 years and with an initial interest rate of three percent. The initial rate would be adjusted to the current market rate at the end of Years 3 and 7 of the loan, but the adjusted interest rate would not exceed the 2-year federal treasury note rate at the time of the adjustment plus 1.5 percent. In no instance, however, would the interest rate be less than three percent. In Case No. 2018-00394, the Kentucky Public Service Commission authorized Estill District to enter such a loan arrangement.

CGB has now advised Estill District that its computer software makes it very difficult to produce and track a 10-year note with these terms. It proposes the following alternative: The 10-year note's interest rate would be adjusted every three years. The adjusted rate would equal the current federal prime rate minus 2.5 percent. The adjusted interest rate would not decrease or increase more than two percent from the prior interest rate. The interest rate could not be less than three percent and could not exceed eight percent.

Estill District believes that the alternative proposal is comparable to and, in some respects, more advantageous than the initial proposal. It respectfully requests that RD advise in writing or by electronic mail of any objections to Estill District's agreement to the alternative CGB loan restructuring proposal and whether such agreement has RD's concurrence. If RD

concurs with such arrangement, Estill District will request that the Kentucky Public Service Commission modify its Order in Case No. 2018-00394 to authorize entry into a loan agreement based upon the alternative CGB loan proposal.

Sincerely,

Jerry

Gerald E. Wuetcher
Counsel to the Firm
Stoll Keenon Ogden PLLC
859-231-3000 (office)
859-231-3017 (direct)
859-550-3894 (cell)
300 West Vine St. Suite 2100
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