

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of

THE APPLICATION OF WARREN COUNTY WATER DISTRICT, WARREN COUNTY, KENTUCKY, (1) FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY, PURSUANT TO KRS 278.020, AUTHORIZING SAID DISTRICT TO CONSTRUCT IMPROVEMENTS AND EXTENSIONS TO ITS EXISTING WATER SYSTEM, WHICH IMPROVEMENTS AND EXTENSIONS WILL BE FINANCED IN WHOLE OR IN PART UNDER THE TERMS OF AN AGREEMENT BETWEEN THE WATER DISTRICT AND THE KENTUCKY INFRASTRUCTURE AUTHORITY; AND (2) FOR AUTHORITY TO ISSUE CERTAIN SECURITIES AS REQUIRED BY KRS 278.300.

CASE NO. 2020-00052

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RESPONSE TO STAFF'S INITIAL REQUEST FOR INFORMATION

The Applicant, Warren County Water District, files this Response to the March 23rd, 2020 Commission Staff's Initial Request for Information as follows:

Responding Witness: Ryan J. Leisey, P.E., Warren County Water District

Request No. 1. Explain the apparent discrepancies in which the estimated cost of design and construction of the project listed in the application is \$2,306,000, the KIA Commitment Letter indicates the project cost shall not exceed \$2,176,573, and the Engineering Report lists a proposed actual construction cost of \$2,156,525.

Response No. 1. \$2,306,000 is the current estimated cost of design and construction based upon the accepted bids, actual engineering related expenses to date, and estimated inspection and engineering costs to finish the project. The actual bids received, along with engineering costs, exceeded the original budget submitted to

KIA for loan approval (\$2,176,573). Please see the attached e-mail from KIA addressing the budget change. KIA will not be issuing a revised Commitment Letter because WCWD will be making up the budget shortfall and thus the KIA loan amount will not be changing. The amount of \$2,156,525 is the actual construction cost as-bid. \$149,475 of additional project expenses need to be added to the construction cost of \$2,156,525 to arrive at the total project cost of \$2,306,000 which is \$129,427 over the original budget of \$2,176,573.

Request No. 2. Provide the document referenced in pages 3 and 4 of the KIA Commitment Letter as "Attachment A."

Response No. 2. Attached hereto please find a copy of the requested KIA Commitment Letter – Attachment A, which details the original project budget referenced in Response No. 1.

Request No. 3. Refer to the application, Exhibit A, page 2 of the report, Section titled Results of Construction Bids and Financial Considerations in which it states that \$125,125 of construction costs will be deleted.

- a. State what construction costs are being deleted.
- b. Clarify whether a portion of the proposed project as presented in the application will not be completed.
- c. State what Warren District's plans are for the portion of the project that was deleted.

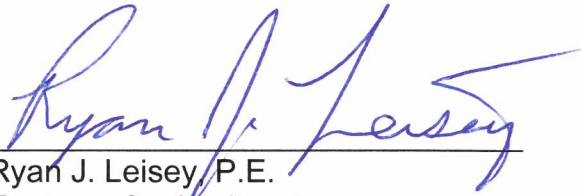
Response No. 3.

- a. Refer to the application, Attachment 3 – Accepted Bid Contract 1, page 3 of the Engineering Report attached hereto for convenience. Bid Item No. 25 – Communications Building in the amount of \$125,125 will be deleted from the project.
- b. The Communications Building referenced above will not be completed at this time.
- c. The Communications Building was to house offsite backup equipment. Due to cost, the backup equipment will continue to be located at the main office facility until a more cost effective location can be determined.

Certification of Response to Commission's Staff's Initial Request for Information

I hereby certify that I have supervised the preparation of Warren County Water District's Response to the Commission Staff's Initial Response for Information. This Response is true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

Respectfully submitted,



Ryan J. Leisey, P.E.
Engineer for Applicant
Warren County Water District
ryanl@warrenwater.com

Ryan Leisey

From: Bickers, Julie (KIA) <julie.bickers@ky.gov>
Sent: Thursday, February 27, 2020 11:46 AM
To: Ryan Leisey
Subject: Warren County Water District C19-002
Attachments: Warren C19-002 Revised Budget.pdf

Caution – This message was generated outside of our organization

Good Afternoon Ryan,

Per our conversation earlier today about the bids coming in higher than expected, KIA will not need to amend the commitment letter since our commitment of \$2,000,000 will not change (I have verified this with Linda Bridwell, KIA Deputy Executive Director). Please provide KIA with a letter for our files explaining why the total budget for the project is \$2,306,000 as opposed to the original projection of \$2,176,573 and that the Water District will be making up the funding difference.

I have attached for you a completed updated budget form. Please review the form carefully and let me know if there are any errors.

Thank you

Julie Bickers

Kentucky Infrastructure Authority
Regional Compliance Coordinator
100 Airport Road, Third Floor
Frankfort, KY 40601
(502)892-3455
Julie.Bickers@ky.gov

ATTACHMENT A

~~City of Mount Washington~~
~~B19-004~~

Warren County Water District
C19 - 002

EXECUTIVE SUMMARY		Reviewer	Ashley Adams	
KENTUCKY INFRASTRUCTURE AUTHORITY		Date	December 11, 2018	
FUND C, GOVERNMENTAL AGENCIES FUND		KIA Loan Number	C19-002	
REVOLVING LOAN FUND		WRIS Number	WX21227053	
BORROWER	WARREN COUNTY WATER DISTRICT WARREN COUNTY			
BRIEF DESCRIPTION				
This project will replace an existing 100,000 gallon storage tank with a new 250,000 gallon elevated storage tank, install a new pump station, add approximately 4,300 linear feet (LF) of 8" water main, and install a new pressure reducing valve. In addition, another 7,600 LF of 2" and 4" waterline will be replaced. This project will improve service by increasing pressures and improving service reliability as well as enhance fire protection.				
PROJECT FINANCING		PROJECT BUDGET		
Fund C Loan	\$2,000,000	RD Fee %	Actual %	
Local Funds	176,573			
				Administrative Expenses \$10,000
				Legal Expenses 7,000
				Land, Easements 15,000
		Eng - Design / Const	7.7% 4.8%	94,763
		Eng - Insp	4.6% 2.0%	39,020
		Construction		1,816,073
		Contingency		161,927
		Other		32,790
TOTAL	\$2,176,573	TOTAL		\$2,176,573
REPAYMENT	Rate	3.00%	Est. Annual Payment	\$137,708
	Term	20 Years	1st Payment	6 Mo. after first draw
PROFESSIONAL SERVICES	Engineer	Warren County Water District		
	Bond Counsel	Dinsmore & Shohl, LLP		
PROJECT SCHEDULE	Bid Opening	Feb-19		
	Construction Start	Apr-19		
	Construction Stop	Mar-20		
DEBT PER CUSTOMER	Existing	\$261		
	Proposed	\$340		
OTHER DEBT	See Attached			
OTHER STATE-FUNDED PROJECTS LAST 5 YRS	See Attached			
RESIDENTIAL RATES		<u>Users</u>	<u>Avg. Bill</u>	
	Current	36,515	\$19.38	(for 4,000 gallons)
	Additional	0	\$19.38	(for 4,000 gallons)
REGIONAL COORDINATION	This project is consistent with regional planning recommendations.			
CASHFLOW	Cash Flow Before Debt Service	Debt Service	Cash Flow After Debt Service	Coverage Ratio
Audited 2015	4,483,610	904,312	3,579,298	5.0
Audited 2016	4,503,577	866,030	3,637,547	5.2
Audited 2017	4,754,283	942,531	3,811,752	5.0
Projected 2018	4,688,605	946,803	3,741,802	5.0
Projected 2019	4,616,933	887,216	3,729,717	5.2
Projected 2020	4,978,551	965,513	4,013,038	5.2
Projected 2021	4,894,405	1,157,178	3,737,227	4.2
Projected 2022	4,817,294	1,152,701	3,664,593	4.2

Reviewer: Ashley Adams
Date: December 11, 2018
Loan Number: C19-002

**KENTUCKY INFRASTRUCTURE AUTHORITY
GOVERNMENTAL AGENCIES LOAN FUND (FUND C)
WARREN COUNTY WATER DISTRICT, WARREN COUNTY
PROJECT REVIEW
WX21227053**

I. PROJECT DESCRIPTION

The Warren County Water District is requesting a Fund C loan in the amount of \$2,000,000 for the Morgantown Road Area Improvements project. This project will replace an existing 100,000 gallon storage tank with a new 250,000 gallon elevated storage tank, install a new pump station, add approximately 4,300 linear feet (LF) of 8" water main, and install a new pressure reducing valve. In addition, another 7,600 LF of 2" and 4" waterline will be replaced. This project will improve service by increasing pressures and improving service reliability as well as enhance fire protection.

Warren County Water District provides sewer service to citizens in Warren County and water service to both the County and surrounding area. The District buys all of its water from Bowling Green Municipal Utilities (BGMU) and sends all sewer flow back to BGMU for treatment. The District only owns the sewer collection system, they do not have any sewer treatment operations. On March 17, 2003, the District entered into a 41 year service agreement with BGMU. All rate adjustments are approved by BGMU, the District, and Kentucky Public Service Commission.

II. PROJECT BUDGET

	Total
Administrative Expenses	\$ 10,000
Legal Expenses	7,000
Land, Easements	15,000
Engineering Fees - Design	84,763
Engineering Fees - Construction	10,000
Engineering Fees - Inspection	39,020
Construction	1,816,073
Contingency	161,927
Other	32,790
Total	\$ 2,176,573

III. PROJECT FUNDING

	<u>Amount</u>	<u>%</u>
Fund C Loan	\$ 2,000,000	92%
Local Funds	176,573	8%
Total	\$ 2,176,573	100%

IV. KIA DEBT SERVICE

Amortized Loan Amount	\$ 2,000,000
Interest Rate	3.00%
Loan Term (Years)	20
Estimated Annual Debt Service	\$ 133,708
Administrative Fee (0.20%)	4,000
Total Estimated Annual Debt Service	\$ 137,708

V. PROJECT SCHEDULE

Bid Opening	February 2019
Construction Start	April 2019
Construction Stop	March 2020

VI. RATE STRUCTURE

A. Customers

	<u>Current</u>
Residential	27,190
Commercial	2,259
Industrial	
Total	29,449

B. Rates

Water Rates	<u>Current</u>	<u>Prior</u>
Date of Last Rate Increase	01/01/17	10/17/13
Minimum (2,000 gallons)	\$11.86	\$11.16
Next 6,000 Gallons (per 1,000)	3.76	3.41
Cost for 4,000 gallons	\$19.38	\$17.98
Increase %	7.8%	
Affordability Index (Rate/MHI)	0.4%	

Sewer Rates	Proposed	Current *	Prior
Date of Last Rate Increase		01/01/17	10/17/13
Minimum (2,000 gallons)	\$11.27	\$10.78	\$11.86
Next 6,000 Gallons (per 1,000)	4.80	4.59	5.13
Cost for 4,000 gallons	\$20.87	\$19.96	\$22.12
Increase %	4.6%	-9.8%	
Affordability Index (Rate/MHI)	0.4%	0.4%	0.4%

* Sewer rates declined in 2017 due to a lower wholesale pass-through adjustment.

VII. DEMOGRAPHICS

Based on current Census data from the American Community Survey 5-Year Estimate 2012-2016, the Utility's service area population was 61,634 with a Median Household Income (MHI) of \$56,349. The median household income for the Commonwealth is \$44,811. The project will qualify for the standard 3% interest rate for Fund C.

Year	Population		County		County Unemployment	
	City	% Change	County	% Change	Date	Rate
1980	40,450		71,828		June 2005	5.6%
1990	40,641	0.5%	76,673	6.7%	June 2010	9.3%
2000	49,296	21.3%	92,522	20.7%	June 2015	5.1%
2010	58,067	17.8%	113,792	23.0%	June 2018	4.4%
Current	62,824	8.2%	121,066	6.4%		
Cumulative %		55.3%		68.5%		

VIII. FINANCIAL ANALYSIS

Financial information was obtained from the audited financial statements for the years ended December 31, 2015 through December 31, 2017. No adjustments were made to operating expenses for pension liability as the District participates in the National Rural Electric Cooperative Association Retirement Security Plan. Percentage references in the History section below are based on whole dollar amounts and not the rounded amounts presented

HISTORY

Combined water and sewer revenues increased 10% from \$13.4 million in 2015 to \$14.8 million in 2017 due to rate adjustments as well as continued growth in the County. Sewer revenues contribute an average of 28% or \$3.9 million to total revenue while water revenues contribute 72% or \$10.1 million. Operating expenses for water and sewer operations combined increased 13% from \$9.3 million to \$10.5 million

during the same time period. Sewer expenses average 29% of total expenses or \$2.9 million annually while water expenses average 71% or \$6.9 million annually excluding depreciation. Debt service coverage for total operations was 5.0, 5.2, and 5.0 from 2015 to 2017. In 2016 the District refinanced their Rural Water Series 2006 bonds with Series 2016B which caused an increase in recorded debt service that was factored out of this analysis.

The 2017 balance sheet reflects a current ratio of 4.5, a debt to equity ratio of 0.2, 26.3 days sales in accounts receivable, and 8.3 months operating expenses in unrestricted cash. The District changed auditors in 2017 which resulted in accounting changes to restricted and unrestricted assets and the corresponding shifts in financial indicators from prior years.

PROJECTIONS

Projections are based on the following assumptions:

- 1) Combined revenues will increase 1% annually for growth.
- 2) There is a proposed rate increase for sewer expected to increase revenues over 11% reflected in 2020 forward. The majority of the increase will impact commercial customers via a restructuring of rates to avoid taking losses on high volume customers incurred after wholesale rate changes by BGMU starting in 2011.
- 3) Expenses will increase 2% annually for inflation.
- 4) Debt service for KIA Loans B19-006, C19-002, and the Rural Development loan affiliated with B19-006 have been included in the forecast.
- 5) Debt service coverage is 5.4 in 2021 when full principal and interest repayments begin for both loan B19-006 and C19-002.

Based on the pro forma assumptions, the utility shows adequate cash flow to repay the KIA Fund C loan.

REPLACEMENT RESERVE

The replacement reserve will be 5% (\$100,000 total) of the final amount borrowed (prior to principal forgiveness, if any) to be funded annually (\$5,000 yearly) each December 1 for 20 years and maintained for the life of the loan.

IX. DEBT OBLIGATIONS

	Outstanding	Maturity
USDA Bond 1993	\$ 489,000	2033
USDA Bond 2004A	965,000	2025
USDA Bond 2005A	1,069,000	2045
KIA Loan (A97-04)	68,496	2018
KIA Loan (A98-02)	17,673	2018
KIA Loan (C11-02)	679,003	2033
KIA Loan (C15-003)	1,049,576	2036
Rural Water Bond 2012B	1,595,000	2039
Rural Water Bond 2013B	1,465,000	2028
Rural Water Bond 2016B	2,175,000	2030
Total	\$ 9,572,748	

X. CONTACTS

Legal Applicant

Entity Name	Warren County Water District
Authorized Official	John M. Dix (General Manager)
County	Warren
Email	johnd@warrenwater.com
Phone	270-842-0052
Address	PO Box 10180 Bowling Green, KY 42102-4780

Project Administrator/ Consulting Engineer

Name	Ryan Leisey
Organization	Warren County Water District
Email	ryanl@warrenwater.com
Phone	270-842-0052
Address	PO Box 10180 Bowling Green, KY 42102-4780

XI. RECOMMENDATIONS

KIA staff recommends approval of the loan with the standard conditions.

WARREN COUNTY WATER DISTRICT
FINANCIAL SUMMARY (DECEMBER YEAR END)

	Audited <u>2015</u>	Audited <u>2016</u>	Audited <u>2017</u>	Projected <u>2018</u>	Projected <u>2019</u>	Projected <u>2020</u>	Projected <u>2021</u>	Projected <u>2022</u>
Balance Sheet								
Assets								
Current Assets	4,220,035	5,237,193	9,900,341	10,284,877	10,668,349	11,111,453	11,495,875	11,873,135
Other Assets	120,484,075	125,882,301	127,663,624	127,600,773	131,175,285	129,253,786	126,094,058	122,868,958
Total	<u>124,704,110</u>	<u>131,119,494</u>	<u>137,563,965</u>	<u>137,885,650</u>	<u>141,843,634</u>	<u>140,365,239</u>	<u>137,589,933</u>	<u>134,742,093</u>
Liabilities & Equity								
Current Liabilities	11,752,618	10,122,217	2,192,434	2,134,271	2,181,664	2,205,331	2,233,872	2,262,672
Long Term Liabilities	10,334,870	10,905,485	17,572,768	17,014,808	20,067,955	20,466,135	19,849,774	19,218,913
Total Liabilities	<u>22,087,488</u>	<u>21,027,702</u>	<u>19,765,202</u>	<u>19,149,079</u>	<u>22,249,619</u>	<u>22,671,466</u>	<u>22,083,646</u>	<u>21,481,585</u>
Net Assets	<u>102,616,622</u>	<u>110,091,792</u>	<u>117,798,763</u>	<u>118,736,571</u>	<u>119,594,015</u>	<u>117,693,773</u>	<u>115,506,287</u>	<u>113,260,508</u>
Cash Flow								
Revenues	13,423,376	13,862,141	14,825,629	14,969,520	15,114,849	15,694,502	15,842,752	15,992,485
Operating Expenses	9,253,826	9,723,069	10,478,441	10,688,010	10,905,011	11,123,046	11,355,442	11,582,286
Other Income	314,060	364,505	407,095	407,095	407,095	407,095	407,095	407,095
Cash Flow Before Debt Service	<u>4,483,610</u>	<u>4,503,577</u>	<u>4,754,283</u>	<u>4,688,605</u>	<u>4,616,933</u>	<u>4,978,551</u>	<u>4,894,405</u>	<u>4,817,294</u>
Debt Service								
Existing Debt Service	904,312	866,030	942,531	946,803	887,216	902,602	893,648	889,171
Proposed KIA Loans (B19-006, C19-002)	0	0	0	0	0	62,911	263,530	263,530
Total Debt Service	<u>904,312</u>	<u>866,030</u>	<u>942,531</u>	<u>946,803</u>	<u>887,216</u>	<u>965,513</u>	<u>1,157,178</u>	<u>1,152,701</u>
Cash Flow After Debt Service	<u>3,579,298</u>	<u>3,637,547</u>	<u>3,811,752</u>	<u>3,741,802</u>	<u>3,729,717</u>	<u>4,013,038</u>	<u>3,737,227</u>	<u>3,664,593</u>
Ratios								
Current Ratio	0.4	0.5	4.5	4.8	4.9	5.0	5.1	5.2
Debt to Equity	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Days Sales in Accounts Receivable	21.0	30.1	26.3	26.3	26.3	26.3	26.3	26.3
Months Operating Expenses in Unrestricted Cash	3.6	4.2	8.3	8.6	8.8	9.1	9.3	9.5
Debt Coverage Ratio	5.0	5.2	5.0	5.0	5.2	5.2	4.2	4.2

BASE BID SCHEDULE – CONTRACT 1 (Rev. 1 - CONTINUED)
Glen Lily Rd. & W. Villa Rd.

NO.	ITEM	UNIT	UNIT PRICE	QTY.	TOTAL PRICE
23	Booster Pump Station	EA	<u>200,973.00</u>	1	<u>200,973.00</u>
24	Valve Vault – Water Storage Tank	EA	<u>50,920.00</u>	1	<u>50,920.00</u>
25	Communications Building	EA	<u>125,125.00</u>	1	<u>125,125.00</u>
26	Tank Site Fence & 12' Gate	EA	<u>18,000.00</u>	1	<u>18,000.00</u>
27	Silt Fence	LF	<u>4 ME</u>	600	<u>3,600 ME</u>
28	Rip Rap Check Dam	TN	<u>44 ME</u>	3	<u>132.00 ME</u>
29	Final Cleanup	LF	<u>\$2.00</u>	5,000	<u>\$10,000.00</u>
TOTAL BID – Glen Lily Rd. & W. Villa Rd.					<u>\$954,423.00 ME</u>

BASE BID SCHEDULE – CONTRACT 1 (Rev. 1 - CONTINUED)
Small Line Replacements

NO.	ITEM	UNIT	UNIT PRICE	QTY.	TOTAL PRICE
1	8"x8" Tap Sleeve & Valve on PVC	EA	<u>3,425.00</u>	2	<u>6,850.00</u>
2	6"x6" Tap Sleeve & Valve on CIP	EA	<u>3,737.00</u>	2	<u>7,474.00</u>
3	6"x6" Tap Sleeve & Valve on PVC	EA	<u>2,868.00</u>	2	<u>5,736.00</u>
4	6"x4" Tap Sleeve & Valve on PVC	EA	<u>2,100.00</u>	1	<u>2,100.00</u>
5	4"x4" Tap Sleeve & Valve on PVC	EA	<u>2,134.00</u>	1	<u>2,134.00</u>
6	12"x2" Service Saddle on PVC & 2" Gate Valve	EA	<u>1,344.00</u>	1	<u>1,344.00</u>
7	6"x2" Service Saddle on CIP & 2" Gate Valve	EA	<u>1,377.00</u>	1	<u>1,377.00</u>
8	6"x2" Service Saddle on PVC & 2" Gate Valve	EA	<u>990.00</u>	2	<u>1,980.00</u>
9	4"x2" Service Saddle on PVC & 2" Gate Valve	EA	<u>935.00</u>	1	<u>935.00</u>
10	4"x2" Service Saddle on CIP & 2" Gate Valve	EA	<u>1,092.00</u>	1	<u>1,092.00</u>
11	3"x2" Service Saddle on PVC & 2" Gate Valve	EA	<u>946.00</u>	1	<u>946.00</u>
12	3"x2" Service Saddle on ACP & 2" Gate Valve	EA	<u>990.00</u>	1	<u>990.00</u>
13	4" Gate Valve	EA	<u>1,100.00</u>	1	<u>1,100.00</u>