

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE)	
BRACKEN COUNTY WATER DISTRICT TO)	
ISSUE SECURITIES IN THE APPROXIMATE)	
PRINCIPAL AMOUNT OF \$2,300,000 FOR)	CASE NO.
THE PURPOSE OF REFUNDING AND)	2020-00199
REAMORTIZING CERTAIN OUTSTANDING)	
OBLIGATIONS OF THE DISTRICT)	
PURSUANT TO THE PROVISIONS OF KRS)	
278.300 AND 807 KAR 5:001)	

ORDER

On June 25, 2020, Bracken County Water District (Bracken District) filed an application (Application) seeking Commission authority to enter into a Loan Agreement (Loan) with Kentucky Rural Water Finance Corporation (KRWFC) to borrow approximately \$2,300,000 (subject to adjustment of up to 10 percent) to refinance an outstanding debt obligation, reamortize an outstanding loan, and to pay the costs of issuance of the KRWFC Loan. There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

Bracken District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that provide retail water service to 2,600 customers in Bracken, Mason, Pendleton, and Robertson counties, Kentucky.¹

¹ *Annual Report of Bracken County Water District to the Public Service Commission of the Commonwealth of Kentucky for the Calendar year Ended December 31, 2019* (2019 Annual Report) at 12 and 49.

The Commission notes that its records indicate that Bracken District has not sought a general adjustment in base rates by any other means than through a financing approval or in conjunction with an application for a Certificate of Public Convenience and Necessity since its Application for General Rates Adjustment in 2010.² While Bracken District has increased its rates as part of financing cases through the United States Department of Agriculture Rural Development (RD), the Commission's review of records in an RD financing case is limited and very different from the comprehensive review of a utility's total financial stability and operational viability that takes place in a traditional rate adjustment case or an alternative rate adjustment. In Commission Case No. 2019-00041 and the resulting investigative report, the Commission discussed the problems that can occur when utilities intentionally avoid a review of their financial records by relying solely on financing cases to increase rates.³ A key recommendation from that investigative report was that water districts should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.⁴ The Commission notes that while Bracken District's audit reports for the calendar years 2015 through 2018 reflect both positive net income and cash flow,⁵ it has been the finding of the Commission in multiple proceedings that rates tend to become obsolete after five

² Case No. 2010-00184, *Application of Bracken County Water District for an Adjustment of Water Rates Pursuant to 808 KAR 5:076* (Ky. PSC Jun. 7, 2010).

³ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019) (Final Order).

⁴ *Id.*

⁵ Bracken District's Audit Reports can be found on the Commission's website at:
https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_19050_2015_1.pdf
https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_19050_2016_1.pdf
https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_19050_2017_1.pdf
https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_19050_2018_2.pdf

years due to changes in a utility's cost of service.⁶ Based upon the recommendation that utilities undergo a comprehensive rate and operations review every three years from the investigative report in Case No. 2019-00041,⁷ and longstanding general Commission guidelines that a rate adjustment is recommended every five years,⁸ the Commission recommends Bracken District revise its policy to seek a base rate adjustment every 3-5 years to ensure Bracken District's rates are sufficient to support its financial stability and operational viability.

In the Commission's September 4, 2018 Periodic Compliance Inspection, Bracken District was notified that it had approximately 500 customers with one inch and smaller meters that had been in service for 10 years without being tested as required in 807 KAR 5:066, Section 16(1). Bracken District sent a letter in response to its deficiencies claiming it was in the process of replacing the meters at issue and anticipated completing the project by December 2018. However, the Commission has received no updates regarding the project, therefore, the Commission finds that Bracken District should file an update to its plans filed in its response to Commission Staff's September 4, 2018 Periodic Compliance Inspection.

Bracken District proposes to execute a Loan with KRWFC to borrow \$2,300,000.⁹ The proposed Loan will have a 24-year term subject to interest rates that will vary from

⁶ See Case No. 2017-00244, *Electronic Application of West Carroll Water District for Rate Adjustment* (Ky. PSC Dec. 4, 2017) (Final Order) at 8, footnote 8. See also Case No. 2017-00253, *Application of North McLean County Water District for Alternative Rate Adjustment* (Ky. PSC Oct. 18, 2017) (Final Order) at 9, footnote 8.

⁷ See Case No. 2019-00041, Final Order.

⁸ See Case No. 2017-00244, Final Order. See Case No. 2017-00253, Final Order.

⁹ Application at 5.

1.34 percent to 1.85 percent per annum.¹⁰ Bracken District proposes to use the proceeds from the KRWFC Loan to fully refund the Waterworks Revenue Bonds of the District, Series 2004, with an original principal amount of \$980,000, and to reamortize KRWFC Public Projects Revenue Bonds, Series 2007D, with an original principal amount of \$3,350,000, currently held in the open market.¹¹

Bracken District estimates that it will expend \$2,367,410 to refund the Prior Bonds.¹² The estimated cost that will be expended to refinance the outstanding indebtedness includes a reoffering premium of \$52,818.¹³ Bracken District provided a Debt Service Comparison that indicates that the refinancing would save \$503,187¹⁴ over the life of the proposed loan, resulting in a net present value (NPV) cash flow savings of \$421,580.¹⁵

The Commission has reviewed the proposed refinancing and finds Bracken District's proposal to be reasonable due to the lower effective interest rate and cash flow savings Bracken District would realize over the period of the Loan. However, if the new interest rate on the proposed refinancing is higher than the range of interest rates set forth in the Application, Bracken District should not proceed with the refinancing unless

¹⁰ *Id.*, Exhibit A.

¹¹ Application at 5.

¹² *Id.* Exhibit B, Sources and uses. Uses of Funds: \$36,800 (Total Underwriter's Discount) + \$41,800 (Costs of Issuances) + \$2,288,212.72 (Deposit to Current Refunding Fund) + \$597.40 (Rounding Amount) = \$2,367,410.12. Sources of Funds: \$2,300,000 (Par Amount of Bonds) + \$52,818.45 (Reoffering Premium) + \$14,591.67 (Transfers from Prior Issue Debt Service Funds) = \$2,367,410.12.

¹³ *Id.*

¹⁴ *Id.*, Exhibit C.

¹⁵ *Id.*

the NPV of the refinancing results in positive cash flow. The Commission commends Bracken District for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its customers.

After consideration of the evidence of record and being sufficiently advised, the Commission finds that:

1. The proposed Loan from KRWFC is for lawful objects within the corporate purposes of Bracken District, is necessary and appropriate for and consistent with the proper performance by the utility of its service to the public, will not impair its ability to perform that service, is reasonable, necessary, and appropriate for such purposes, and should be approved.

2. Bracken District should execute its note as security for the proposed Loan in the manner described in its Application.

3. The final amounts of the RD payoff, the legal fees, and the new KRWFC Loan will not be known until the refinancing transaction is finalized. Therefore, Bracken District should provide the Commission an updated version of the Application, Exhibit C, reflecting the cash flow analysis of the new KRWFC Loan within ten days of finalizing the transaction.

4. The Commission directs Bracken District to the Commission's March 16, 2020 and March 24, 2020 Orders in Case No. 2020-00085¹⁶ regarding filings with the Commission. The Commission expects the original documents to be filed with the Commission within 30 days of the lifting of the current state of emergency.

¹⁶ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020), Order at 5–6. Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 24, 2020), Order at 1–3.

5. The proceeds from the proposed Loan should be used only for the lawful purposes set out in Bracken District's Application.

6. The terms and conditions of the new KRWFC Loan should be consistent with the KRWFC assistance program as described in Bracken District's Application.

7. Bracken District should file an update to its plans filed in its response to Commission Staff's September 4, 2018 Periodic Compliance Inspection.

IT IS THEREFORE ORDERED that:

1. Bracken District is authorized to enter into a Loan with KRWFC to borrow no more than the total amount to pay off the RD indebtedness proposed to be refinanced as identified in the application on the condition that the final NPV of the savings, determined upon closing, generate positive cash flow. The Loan maturity date and interest rate shall be in accordance with the KRWFC assistance program as described in Bracken District's Application.

2. Bracken District shall execute the KRWFC Loan documents as authorized herein.

3. Bracken District shall comply with all matters set out in finding paragraphs 3 through 6 as if they were individually so ordered.

4. Any documents filed in the future pursuant to finding paragraphs 3 and 4 shall reference this case number and shall be retained in the post-case correspondence file.

5. Bracken District shall file an update to its plans filed in its response to Commission Staff's September 4, 2018 Periodic Compliance Inspection.

6. This case is hereby closed and will be removed from the Commission's docket.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

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By the Commission



ATTEST:



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