

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE	)	
CHRISTIAN COUNTY WATER DISTRICT TO	)	
ISSUE SECURITIES IN THE APPROXIMATE	)	
PRINCIPAL AMOUNT OF \$1,634,000 FOR	)	CASE NO.
THE PURPOSE OF REFUNDING CERTAIN	)	2020-00239
OUTSTANDING OBLIGATIONS OF THE	)	
DISTRICT PURSUANT TO THE PROVISIONS	)	
OF KRS 278.300 AND 807 KAR 5:001	)	

ORDER

On August 7, 2020, Christian County Water District (Christian 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 \$1,634,000 (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.

Christian District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that provide retail water service to 6,084<sup>1</sup> customers in Christian County, Kentucky.<sup>2</sup>

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<sup>1</sup> *Annual Report of Christian County Water District to the Public Service Commission of the Commonwealth of Kentucky for the Calendar year Ended December 31, 2018* (2018 Annual Report) at 49.

<sup>2</sup> *Annual Report of Christian 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.

The Commission notes that its records indicate that Christian 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. While Christian 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.<sup>3</sup> 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.<sup>4</sup> Christian District's audit report for 2015 shows that Christian District reported a negative net income of \$254,744 and in 2016, the audit report shows that Christian District reported a negative net income of \$72,257.<sup>5</sup> In 2017, Christian District filed a case pursuant to KRS 278.023 for approval of a federally funded

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

<sup>4</sup> *Id.*

<sup>5</sup> Christian District's Audit Reports can be found on the Commission's website at:

[https://psc.ky.gov/Utility\\_Financial\\_Reports\\_Net/uploaded/support/SD\\_19700\\_2015\\_2.pdf](https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_19700_2015_2.pdf)  
[https://psc.ky.gov/Utility\\_Financial\\_Reports\\_Net/uploaded/support/SD\\_19700\\_2016\\_2.pdf](https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_19700_2016_2.pdf)

construction project and an increase in rates.<sup>6</sup> The Commission approved the project and the corresponding 9.200 percent increase in rates. In Christian District's 2017 audit report, Christian District reported a positive net income of \$22,140.<sup>7</sup> However, in 2018 and 2019, Christian District audit reports again reported negative net income of \$100,007 and \$76,874 respectively.<sup>8</sup> Clearly, this supports the Commission's determination that RD financing cases are not a sufficient analysis of the utility's operation and do not produce rates that support the utility's operations in the long term. For this reason, the Commission will require Christian District to file an adjustment in base rates or file for an alternative rate filing within one year of the date of entry of this Order.

Christian District proposes to execute a Loan with KRWFC to borrow \$1,634,000.<sup>9</sup> The proposed Loan will have a 28-year term subject to interest rates that will vary from 2.200 percent to 2.700 percent per annum.<sup>10</sup> Christian District proposes to use the proceeds from the KRWFC Loan to fully refund the Waterworks Revenue Bonds of the District, Series 2008, with an original principal amount of \$1,850,000, bearing an interest rate of 4.375 percent per annum currently held by the United States Department of

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<sup>6</sup> Case No. 2017-00207, *Application of Christian County Water District for a Certificate of Public Convenience and Necessity to Construct, Finance, and Increase Rates Pursuant to KRS 278.023* (Ky. PSC June 14, 2017)

<sup>7</sup> Christian District's Audit Reports can be found on the Commission's website at:

[https://psc.ky.gov/Utility\\_Financial\\_Reports\\_Net/uploaded/support/SD\\_19700\\_2017\\_1.pdf](https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_19700_2017_1.pdf)

<sup>8</sup> Application at Exhibit E

<sup>9</sup> Application at 2.

<sup>10</sup> *Id.*, Exhibit A.

Agriculture, acting through Rural Development (USDA/RD), and paying the costs of issuance of the KRWFC Loan.<sup>11</sup>

Christian District estimates that it will expend \$1,671,835 to refund the Prior Bonds.<sup>12</sup> The estimated cost that will be expended to refinance the outstanding indebtedness includes a reoffering premium of \$5,733.33.<sup>13</sup> Christian District provided a Debt Service Comparison that indicates that the refinancing would save \$450,989<sup>14</sup> over the life of the proposed loan, resulting in a net present value (NPV) cash flow savings of \$358,496.<sup>15</sup>

The Commission has reviewed the proposed refinancing and finds Christian District's proposal to be reasonable due to the lower effective interest rate and cash flow savings Christian 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, Christian District should not proceed with the refinancing unless the NPV of the refinancing results in positive cash flow. The Commission commends Christian District for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its customers.

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<sup>11</sup> Application at 2.

<sup>12</sup> *Id.* Exhibit B, Sources and uses. Uses of Funds: \$24,510 (Total Underwriter's Discount) + \$26,610 (Costs of Issuances) + \$1,620,424.12 (Deposit to Current Refunding Fund) + \$290.94 (Rounding Amount) = \$1,671,835.31. Sources of Funds: \$1,634,000 (Par Amount of Bonds) + \$5,733.33 (Reoffering Premium) + \$32,061.98 (Transfers from Prior Issue Debt Service Funds) = \$1,671,835.31.

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*, Exhibit C.

<sup>15</sup> *Id.*

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 Christian 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. Christian 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, Christian 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 Christian District to the Commission's March 16, 2020 and March 24, 2020 Orders in Case No. 2020-00085<sup>16</sup> 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.

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

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<sup>16</sup> 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.

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

7. Christian District should file an application for an adjustment in base rates within one year of the date of filing of this Order to ensure that its rates are sufficient.

IT IS THEREFORE ORDERED that:

1. Christian 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 Christian District's Application.

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

3. Christian 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. Christian District should file an application for an adjustment in base rates within one year of the date of filing of this Order to ensure that its rates are sufficient.

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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Acting Executive Director

Case No. 2020-00239



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