

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WARREN)	
COUNTY WATER DISTRICT TO ISSUE)	
SECURITIES IN THE APPROXIMATE)	
PRINCIPAL AMOUNT OF \$3,735,000 FOR)	CASE NO.
THE PURPOSE OF REFUNDING AND)	2021-00007
REAMORTIZING CERTAIN OUTSTANDING)	
OBLIGATIONS OF THE DISTRICT)	
PURSUANT TO THE PROVISIONS OF KRS)	
278.300 AND 807 KAR 5:001)	

ORDER

On January 29, 2021, Warren County Water District (Warren District) filed an application seeking Commission authority to enter into a Loan Agreement with the Kentucky Rural Water Finance Corporation (KRWFC) to borrow approximately \$3,735,000 (subject to adjustment of up to 10 percent) to refund outstanding long-term debt obligations and to reamortize an existing 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.

Warren District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that provide retail water service to 30,413¹ customers in Warren County, Kentucky.²

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

² *Id.* at 12.

Warren District proposes to execute a Loan Agreement with KRWFC to borrow \$3,735,000.³ The proposed Loan will have a term of 18 years with interest rates that will vary from 2.00 percent to 2.60 percent per annum.⁴ Warren District proposes to use the proceeds from the KRWFC Loan to fully refund the following outstanding long-term debt obligations: (1) Warren County Water District Sewer System Revenue Bonds, Series 1993, dated November 23, 1994, in the original authorized principal amount of \$761,000, with an outstanding principal balance of \$400,000 bearing an interest of rate of 4.50 percent per annum held by the United States Department of Agriculture, acting through Rural Development (USDA/RD); (2) Warren County Water District Water Refunding Revenue Bonds, Series 2004A, dated January 15, 2004, in the original authorized principal amount of \$2,025,000, with an outstanding principal balance of \$530,000 bearing interest rates of 4.30 and 4.50 percent per annum, currently held in the open market; (3) Loan number C11-02, payable to the Kentucky Infrastructure Authority (KIA), made in 2013, in the original authorized principal amount of \$823,900, with an outstanding principal balance of \$564,671 bearing an interest rate of 3.00 percent per annum, currently held in the open market; and (4) Loan number C15-003, payable to KIA, made in 2017, in the original authorized principal amount of \$1,090,050, with an outstanding principal balance of \$920,664 bearing an interest rate of 3.00 percent per annum, currently held in the open market.⁵ Warren District will also use the KRWFC loan proceeds to reamortize an existing KRWFC Loan designated as Kentucky Rural Water

³ Application at 2.

⁴ *Id.*, Exhibit A, Estimated Debt Service Schedule.

⁵ *Id.* at 2–3 and Exhibit D, Prior Bonds Debt Service.

Finance Corporation Public Projects Revenue Bonds, Series 2012B, dated March 28, 2012, in the original principal amount of \$2,095,000, with an outstanding principal balance of \$1,380,000 bearing interest rates that vary from 3.20 percent to 4.20 percent per annum, currently held in the open market.⁶

Warren District estimates that it will expend \$3,939,629 to refund the outstanding long-term debt obligations and to reamortize the KRWFC Loan.⁷ The estimated cost that will be expended to refinance the outstanding indebtedness includes a reoffering premium and transfers from the debt service reserve (DSR) funds of \$89,101 and \$100,000, respectively.⁸ Warren District provided a Debt Service Comparison indicating that the refinancing would save \$549,343⁹ over the life of the proposed Loan, resulting in a net present value (NPV) cash flow savings of \$455,030.¹⁰

The Commission has reviewed the proposed refinancing and finds Warren District's proposal to be reasonable due to the lower effective interest rate and cash flow savings Warren 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, Warren District should not proceed with the refinancing unless the NPV of the refinancing results in positive cash flow. The Commission commends Warren

⁶ *Id.* at 3 and Exhibit D, Prior Bonds Debt Service

⁷ *Id.*, Exhibit B, Total Sources and Uses of Funds. Uses of Funds: \$65,363 (Total Underwriter's Discount) + \$63,260 (Costs of Issuances) + \$3,810,844 (Deposit to Current Refunding Fund) + \$163 (Rounding Amount) = \$3,939,630. Sources of Funds: \$3,735,000 (Par Amount of Bonds) + \$89,101 (Reoffering Premium) + \$15,529 (Transfers from Prior Issue Debt Service Funds) + \$100,000 (Transfers from Prior Issue DSR Funds) = \$3,939,630.

⁸ *Id.*

⁹ *Id.*, Exhibit C, Debt Service Comparison.

¹⁰ *Id.*

District for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its customers.

The Commission is concerned with Warren District's prolonged absence from the Commission's review of its asset management through an application for adjustment of its rates. Pursuant to KRS 278.300(4), the Commission may grant or deny an application for approval of financing in whole or in part, or upon such terms and conditions as deemed necessary or appropriate.

The Commission has performed a limited review of Warren District's financial records that are on file for the five calendar years and determined that Warren District appears to be on solid financial footing at the present time. In performing this review, the Commission is unable to ensure that the cost allocations between Warren District's water and sewer divisions are reasonable and that there is not a cross-subsidization between the two divisions. Therefore, the Commission finds that Warren District should file a general rate case application pursuant to KRS 278.180 and 807 KAR 5:001, Section 16, within three years of the date of filing of this Order, or, in the alternative, file a formal motion with a detailed analysis of its rates and state the reasons why no rate modification are necessary.

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

1. The proposed KRWFC Loan is for lawful objects within the corporate purposes of Warren 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. Warren District should execute its Loan Agreement as security for the proposed KRWFC Loan in the manner described in its application.

3. The final amounts of the long-term debt payoff and loan reamortization, the legal fees, and the new KRWFC Loan will not be known until the refinancing transaction is finalized. Therefore, Warren District should provide the Commission an updated version of the application and Exhibit C, reflecting the cash flow analysis of the new KRWFC Loan within ten days of finalizing the transaction.

4. The Commission directs Warren District to the Commission's March 16, 2020 and March 24, 2020 Orders in Case No. 2020-00085¹¹ 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 KRWFC Loan should be used only for the lawful purposes set out in Warren District's application.

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

7. Warren District should file a general rate case application pursuant to KRS 278.180 and 807 KAR 5:001, Section 16, within three years of the date of filing of this Order to ensure that its rates are sufficient or, in the alternative, file a formal motion with

¹¹ 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.

a detailed analysis of its rates, and state the reasons why no rate modifications are necessary.

IT IS THEREFORE ORDERED that:

1. Warren District is authorized to enter into the loan agreement with KRWFC to borrow an amount up to and not exceeding \$4,108,500,¹² but no more than the total amount needed to pay off the long-term indebtedness proposed to be refinanced or reamortized in the application and 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 Warren District's application.

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

3. Warren 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. Warren District shall file a general rate case application pursuant to KRS 278.180 and 807 KAR 5:001, Section 16, within three years of the date of filing of this Order or, in the alternative, file a formal motion with a detailed analysis of its rates and states the reasons why no modifications are necessary.

¹² \$3,735,000 (Loan subject to a 10% Adjustment) x 10% (Adjustment) = \$373,500 + \$3,735,000 = \$4,108,500 (Maximum Loan Amount).

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:


Executive Director

Case No. 2021-00007

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