

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE TODD	)	
COUNTY WATER DISTRICT FOR APPROVAL	)	
TO ISSUE SECURITIES IN THE	)	
APPROXIMATE PRINCIPAL AMOUNT OF	)	CASE NO.
\$1,260,000 FOR THE PURPOSE OF	)	2021-00310
REFINANCING CERTAIN OUTSTANDING	)	
OBLIGATIONS OF THE DISTRICT PURSUANT	)	
TO THE PROVISIONS OF KRS 278.300 AND	)	
807 KAR 5:001	)	

ORDER

On August 6, 2021, Todd County Water District (Todd District) filed an application seeking Commission authority to refinance certain outstanding debt to Kentucky Rural Water Finance Corporation (KRWFC). Todd District proposes to borrow funds of approximately \$1,260,000 for the refinancing pursuant to an Assistance Agreement (KRWFC Loan) with KRWFC. There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

LEGAL STANDARD

KRS 278.300 requires Commission authorization before a utility may “issue any securities or evidences of indebtedness, or assume any obligation or liability in respect to the securities or evidences of indebtedness of any other person.”<sup>1</sup> KRS 278.300(3) establishes the legal standard and clarifies the scope of Commission review, stating:

The Commission shall not approve any issue or assumption  
unless, after investigation of the purposes and uses of the

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<sup>1</sup> KRS 278.300(1).

proposed issue and proceeds thereof, or of the proposed assumption of obligation or liability, the commission finds that the issue or assumption is for some lawful object within the corporate purposes of the utility, is necessary or appropriate for or consistent with the proper performance by the utility of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose.

### PROPOSED REFINANCING

Todd District proposes to borrow funds pursuant to the KRWFC Loan in the approximate amount of \$1,260,000 (subject to adjustment of up to 10 percent) for the purposes of refinancing existing outstanding indebtedness to KRWFC.<sup>2</sup> Under current interest rates, the refinancing is estimated to yield net present value (NPV) savings to the district of approximately \$79,907.60 through 2033.<sup>3</sup> Todd District states that the final principal amount of the KRWFC Loan will be based upon interest rates at the date of sale of the proposed KRWFC Loan.<sup>4</sup> However, Todd District clarified that no refinancing would occur if interest rates shift so that NPV debt service savings can no longer be achieved.<sup>5</sup>

### DISCUSSION AND FINDINGS

The Commission notes that Todd District's last general rate case was in 2003,<sup>6</sup> and in Case No. 2019-00434<sup>7</sup> the district was ordered to file for an adjustment of rates or

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<sup>2</sup> Application at 2, paragraph 5.

<sup>3</sup> Application at 3, paragraph 9.

<sup>4</sup> Application at 3, paragraph 10.

<sup>5</sup> Application at 3, paragraph 10.

<sup>6</sup> Case No. 2003-00088, *Application of the Todd County Water District for Approval of a Proposed Increase in Rates for Water Service* (Ky. PSC Aug. 1, 2003).

<sup>7</sup> Case No. 2019-00434, *Electronic Application of Todd County Water District to Issue Securities in the Approximate Principal Amount of \$2,581,000 for the Purpose of Refunding Certain Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Jan. 29, 2020).

alternative rate filing within one year of the final Order dated January 29, 2020. In a following Order, the Commission found that a rate study report performed by Kentucky Rural Water Association was enough to nullify the need for a general rate adjustment.<sup>8</sup> The findings of that Order do not exempt Todd District from appropriate financial review, and therefore the Commission has performed a limited, five-year review of Todd District's financial health for the purposes of this refinancing case.

An examination of finances outlined in the annual and audit reports filed with the Commission finds that Todd District has operated with a negative net income for three of the past five years, as shown below.

<u>Source</u>	<u>Year</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Net Income		\$ (302,127)	\$ (254,448)	\$ (5,554)	\$ 195,781	\$ 263,598
Add: Depreciation Expense		515,894	512,233	511,153	505,064	503,295
Cash Basis Income		\$ 213,767	\$ 257,785	\$ 505,599	\$ 700,845	\$ 766,893

  

<u>Audit Report</u>	<u>Year</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Cash and Cash Equivalents		\$ 288,962	\$ 310,178	\$ 369,496	\$ 264,951	\$ 210,660
Restricted Cash		443,434	579,703	647,950	721,463	972,592
Sum: End-of-Year Balance		732,396	889,881	1,017,446	986,414	1,183,252
Net Increase (Decrease) in Cash		(56,295)	157,485	127,565	(31,032)	196,838

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On another note, Todd District's net income has been consistently increasing and has been positive for the two most recent years. Todd District's cash reserves are somewhat stable, and their restricted cash is increasing which indicates that the depreciation

<sup>8</sup> Case No. 2019-00434, *Electronic Application of Todd County Water District to Issue Securities in the Approximate Principal Amount of \$2,581,000 for the Purpose of Refunding Certain Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Feb. 22, 2021).

<sup>9</sup> *Audit Report of Todd County Water District to the Public Service Commission* (Audit Report of Todd District) for the Calendar Year Ended December 31, 2020 at 6, 12, and 22; 2019 Audit Report of Todd District at 7, 12, and 22; 2018 Audit Report of Todd District at 6, 11, and 22; 2017 Audit Report of Todd District at 6, 11, and 21; 2016 Audit Report of Todd District at 6, 11, and 21.

account is being funded. After consideration of the finances found within the annual and audit reports, the Commission finds that Todd District is in a satisfactory overall financial position.

Todd District’s 2020 annual water loss was 10.17 percent as of their 2020 Annual Report.<sup>10</sup> The cost of this water loss at 10.17 percent is approximately \$79,207.<sup>11</sup> Commission regulation 807 KAR 5:066(6)(3) states that for ratemaking purposes a utility’s water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. While Todd District’s 2020 water loss fell below the 15 percent regulated limit, Todd District’s water loss has exceeded 15 percent in two of the last five years, as shown below.<sup>12</sup>

<u>Source</u>	<u>Year</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Annual Report	Unaccounted For Water Loss	27.37%	11.76%	22.07%	11.16%	10.17%
	Year End Customers	3,466	3,478	3,501	3,520	3,584

The Commission commends Todd District on its recent low levels of water loss, but encourages Todd District to pursue reasonable actions to continue to prevent water loss in excess of 15 percent.

In consideration of the evidences above, and the findings of the recent rate study report performed by Kentucky Rural Water Association, the Commission does not find

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<sup>10</sup> *Annual Report of Todd County Water District to the Public Service Commission (Annual Report of Todd District) for the Calendar Year Ended December 31, 2020* at 57.

<sup>11</sup> 2020 Annual Report of Todd District at 50; Purchased water and power expense totaled \$778,824 times average water loss of 10.17 percent: \$778,824 x 10.17% = \$79,207 (rounded)

<sup>12</sup> 2020 Annual Report of Todd District at 57; 2019 Annual Report of Todd District at 57; 2018 Annual Report of Todd District at 57; 2017 Annual Report of Todd District at 56 ; 2016 Annual Report of Todd District at 56.

that a general rate case to be needed at this time. However, the Commission strongly advises Todd District to review its finances on an annual basis to determine if a future rate case is necessary.

Todd District intends to use the proceeds from the proposed KRWFC Loan to refinance outstanding indebtedness to KRWFC in the original principal amount of \$2,165,000 (Prior KRWFC Loan).<sup>13</sup> The total refinancing loan amount is \$1,260,000. The refinancing is comprised of a single loan agreement, with a 12-year term, funded by bonds that will be issued at interest rates that will vary between 2.00 percent and 2.60 percent per annum.<sup>14</sup> The Prior KRWFC Loan carries an outstanding balance of \$1,265,000 and an average coupon rate of 3.30 percent.<sup>15</sup>

Todd District stated that the KRWFC Loan would provide the funds necessary to refinance the Prior KRWFC Loan and pay the fees and expenses incident to the issuance of the KRWFC Loan.<sup>16</sup> Todd District provided a debt service schedule comparison that indicates that the refinancing would save \$88,894.86 over the life of the proposed KRWFC Loan, resulting in a positive net present value (NPV) cash flow savings of \$79,907.60.<sup>17</sup>

The Commission has reviewed the proposed refinancing and finds Todd District's proposal to be reasonable due to the lower effective interest rate and cash flow savings realized over the period of the KRWFC Loan. However, in the event that the new interest

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<sup>13</sup> Application at 2, paragraph 5.

<sup>14</sup> Application, Exhibit A.

<sup>15</sup> Application, Exhibit D.

<sup>16</sup> Application at 3, paragraph 7.

<sup>17</sup> Application, Exhibit C.

rate on the proposed refinancing is higher than the range of interest rates set forth in the application, Todd District should not proceed with the refinancing unless the NPV of the refinancing results in positive cash flow.

The Commission further finds that that Todd District satisfied the legal standards established in KRS 278.300 for the reasons that follow. First, the lawful object of Todd District's purpose is to provide safe, adequate, and reliable water service to the public. The refinancing meets the lawful object of the utility's purposes because it is intended to strengthen the financial position of Todd District through substantial NPV debt service savings. Second, the financing is appropriate for the proper performance by the utility and will not impair its ability to perform that service because the KRWFC Loan is exclusively for the purposes of refinancing existing debt and achieving debt service NPV savings. No other aspects of Todd District's operations or finances will change, except those related to the refinancing of existing debt as outlined in the application and this Order. Third, the financing is a reasonably appropriate option for Todd District to meet its statutory duty to provide safe, adequate, and reliable service because the current low interest rate environment will allow Todd District to achieve the NPV savings. For the reasons set forth above, the Commission further finds that Todd District should be authorized to enter into the proposed Assistance Agreement with KRWFC in order to refinance its existing debt obligations to KRWFC.

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 Todd 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. Todd District should execute its note as security for the proposed Loan in the manner described in its application.

3. The final amount of the KRWFC Loan, legal expenses, and interest rates will not be known until the refinancing transaction is finalized. Therefore, Todd District should provide the Commission an updated version of the debt service schedule in Exhibit A, reflecting the cash flow analysis of the KRWFC Loan within ten days of finalizing the transaction.

4. Within ten days of the execution of the KRWFC Loan documents, Todd District should file with the Commission a copy of the loan documents.

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

6. The terms and conditions of the KRWFC Loan should be consistent with the loan proposal as described in Todd District's application.

IT IS THEREFORE ORDERED that:

1. Todd District is authorized to enter into the KRWFC Loan to borrow no more than the amount proposed in the application needed to pay off and refinance the KRWFC indebtedness and on the condition that the final NPV of the savings, determined upon closing, generate positive cash flow. The loan amount, maturity date, and interest rate shall be in accordance with the KRWFC Loan as described in Todd District's application.

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

3. Todd District shall comply with all matters set out in the findings paragraphs 3 through 6 above as if they were individually ordered.

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

5. This case is closed and 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.



By the Commission

ENTERED  
AUG 30 2021 rcs  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

Case No. 2021-00310

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