

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 \$895,000 FOR THE)	CASE NO.
PURPOSE OF REFINANCING CERTAIN)	2021-00322
OUTSTANDING OBLIGATIONS OF THE)	
DISTRICT PURSUANT TO THE PROVISIONS)	
OF KRS 278.300 AND 807 KAR 5:001)	

ORDER

On August 17, 2021, Christian County Water District (Christian District) filed an application seeking Commission approval to refinance certain outstanding debt to Kentucky Rural Water Finance Corporation (KRWFC) pursuant to KRS 278.300 and 807 KAR 5:001. On September 1, 2021, Christian District filed a motion to amend the application, stating that the refinancing numbers filed with the original application were incorrect. Christian District’s motion to amend the application included an updated refinancing amount and debt service schedules. Christian District proposes to borrow funds of approximately \$2,135,000 for the refinancing via 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 approval 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.”¹ The legal standard contained in KRS 278.300(3) establishes 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 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

Christian District proposes to borrow funds pursuant to the KRWFC Loan in the approximate amount of \$2,135,000 (subject to adjustment of up to 10 percent) for the purposes of refinancing existing outstanding indebtedness to KRWFC.² Under current interest rates, the refinancing is estimated to yield net present value (NPV) savings to the district of approximately \$320,668 through 2038.³ Christian 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.⁴ However, Christian District clarified that no refinancing will occur if interest rates shift so that NPV debt service savings can no longer be achieved.⁵

¹ KRS 278.300(1).

² Christian District’s Motion to Amend Application (filed Sept. 1, 2021) at 2.

³ *Id.*

⁴ Application at 3, paragraph 10.

⁵ *Id.*

DISCUSSION AND FINDINGS

The Commission notes that Christian District's last rate increase occurred in 2017 when the Commission granted a Certificate of Public Convenience and Necessity (CPCN) for a waterworks improvement project that set Christian District's water rates to its USDA Rural Development agreement minimums.⁶ Other rate increases have resulted from purchased water adjustments (PWA) commensurate with increases in Christian District's wholesale water costs from Hopkinsville Water Environment Authority as recent as 2010.⁷ In Case No. 2020-00239, the Commission discussed concerns regarding Christian District's reliance on financing cases to increase rates and ordered Christian District to file for an adjustment in base rates or alternative rate filing (ARF) within one year of the final Order dated September 30, 2020.⁸ An updated examination of finances contained in the annual and audit reports filed with the Commission shows that Christian District has continued to operate with a negative net income for four of the past five years, as shown below.

⁶ 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).

⁷ Case No. 2010-00114, *Purchased Water Adjustment Filing of Christian County Water District* (Ky. PSC May 10, 2010)

⁸ Case No. 2020-00239, *Electronic Application of the Christian County Water District to Issue Securities in the Approximate Principal Amount of \$1,634,000 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 Sept. 30, 2020).

<u>Source</u>	<u>Year</u>	2016	2017	2018	2019	2020
Net Income		\$ (182,613)	\$ 22,140	\$ (100,007)	\$ (76,874)	\$ (156,950)
Add: Depreciation Expense		582,860	581,555	580,969	586,575	589,269
Cash Basis Income		\$ 400,247	\$ 603,695	\$ 480,962	\$ 509,701	\$ 432,319

<u>Audit Report</u>	<u>Year</u>	2016	2017	2018	2019	2020
Cash and Cash Equivalents		\$ 435,681	\$ 623,218	\$ 652,350	\$ 626,704	\$ 983,388
Restricted Cash		2,032,415	2,126,626	2,310,098	2,287,612	2,388,336
Sum: End-of-Year Balance		2,468,096	2,749,844	2,962,448	2,914,316	3,371,724
Net Increase (Decrease) in Cash		65,437	281,748	212,604	(48,132)	457,408

In 2020, Christian District's audit report again reported a negative net income for a third consecutive year. The Commission is concerned that Christian District has been able to stay cash flow positive only through the reliance on supplemental grant money, such as that received in 2020 through the USDA's Water and Waste Disposal Systems for Rural Communities program.¹⁰ The Commission is further concerned that Christian District may not be fully funding its depreciation in order to meet operating costs.

Christian District's 2020 annual water loss was 15.75 percent as of its 2020 annual report.¹¹ The cost of this water loss at 15.75 percent is approximately \$209,146.¹² 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

⁹ Audit Report of Christian County Water District to the Public Service Commission (Audit Report of Christian District) for the Calendar year Ended December 31, 2020 at 8, 11, and 19; 2019 Audit Report of Christian District at 8, 11, and 19; 2018 Audit Report of Christian District at 8, 11, and 19; 2017 Audit Report of Christian District at 8, 11, and 19; 2016 Audit Report of Christian District at 8, 11, and 19.

¹⁰ 2020 Audit Report of Christian District at 56.

¹¹ Annual Report of Christian County Water District to the Public Service Commission (Annual Report of Christian District) for the Calendar year Ended December 31, 2020 at 58.

¹² 2020 Annual Report of Christian District at 50. Christian District's purchased water, power, and chemical expense totaled \$1,327,912; multiply by 2020 water loss of 15.75 percent: \$1,327,912 x 15.75% = \$209,146 (rounded)

water consumed by a utility in its own operations. Reduction of Christian District’s unaccounted-for water loss to 15 percent would result in an approximate \$9,959 decrease to its cost of water.¹³ The Commission has established precedent for greater monitoring of utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Christian District to pursue reasonable actions to reduce its unaccounted-for water loss, which has met or exceeded the 15 percent limit in three of the past five years.¹⁴

Year:	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Water Loss:	13.40	15.12	13.58	15.00	15.75

For the reasons set forth above, the Commission reiterates the findings of the final Order of Case No. 2020-00239 and directs Christian District to file for an adjustment in base rates or ARF by September 30, 2021.¹⁵ In addition, the Commission strongly advises Christian District to begin reviewing its finances on an annual basis to determine when future rate cases become necessary.

Christian District intends to use the proceeds from the proposed KRWFC Loan to refinance outstanding indebtedness to KRWFC in the original principal amount of

¹³ 2020 Annual Report of Christian District at 50. Christian District’s 2020 purchased water, power, and chemical expense totaled \$1,327,912; multiply by 2020 water loss in excess of 15 percent: \$1,327,912 x 0.75% = \$9,959 (rounded)

¹⁴ 2020 Annual Report of Christian District at 58; 2019 Annual Report of Christian District at 58; 2018 Annual Report of Christian District at 57; 2017 Annual Report of Christian District at 56; 2016 Annual Report of Christian District at 56.

¹⁵ Case No. 2020-00239, *Electronic Application of the Christian County Water District to Issue Securities in the Approximate Principal Amount of \$1,634,000 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 Sept. 30, 2020) at 6, ordering paragraph 5.

\$2,990,000 (Prior KRWFC Loan).¹⁶ The total refinancing amount is \$2,135,000. The refinancing is comprised of a single loan agreement, with an approximate 17-year term, funded by bonds that will be issued at interest rates that will vary between 2.00 percent and 2.50 percent per annum.¹⁷ The Prior KRWFC Loan carries an outstanding balance of \$2,180,000 and an average coupon rate of 3.90 percent.¹⁸

Christian 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.¹⁹ Christian District provided a debt service schedule comparison that indicates that the refinancing would save \$350,390 over the life of the proposed KRWFC Loan, resulting in a positive NPV cash flow savings of \$320,668.²⁰ However, in the event that 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 further finds that that Christian District satisfied the legal standards established in KRS 278.300 to refinance a loan previously approved by the Commission,²¹ for the reasons that follow. First, the lawful object of Christian District's

¹⁶ Application at 2, paragraph 5.

¹⁷ Christian District's Motion to Amend Application (filed Sept. 1, 2021), Exhibit A.

¹⁸ *Id.*, Exhibit D.

¹⁹ Application at 3, paragraph 7.

²⁰ Christian District's Motion to Amend Application (filed Sept. 1, 2021), Exhibit C.

²¹ Case No. 2012-00068, *Application of the Christian County Water District to Issue Securities in the Approximate Principal Amount of \$3,030,000 for the Purpose of Refunding Certain Outstanding Revenue Bonds of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Apr. 13, 2012).

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 Christian District through substantial NPV debt service savings. Second, the refinancing 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 Christian 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 refinancing is a reasonably appropriate option for Christian District to meet its statutory duty to provide safe, adequate, and reliable service because the current low interest rate environment will allow Christian District to achieve the NPV savings.

On a final note, the Commission requests that Christian District show more care when making filings with the Commission. Christian District filed its original application on August 17, 2021, and did not notify the Commission of the incorrectly filed information until September 1, 2021. This is especially problematic under time-sensitive constraints, such as refinancing requests that are dependent on interest rates.

For the reasons set forth above, the Commission finds Christian 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, and Christian District should be authorized to enter into the proposed KRWFC Loan 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 motion to amend filed on September 1, 2021, by Christian District should be granted and any reference to the application in this matter incorporates the amended version of the application.

2. The proposed KRWFC Loan 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.

3. Christian District shall execute its note as security for the proposed KRWFC Loan in the manner described in its application.

4. The final amount of the KRWFC Loan, legal expenses, and interest rates will not be known until the refinancing transaction is finalized. Therefore, Christian District shall 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.

5. Within ten days of the execution of the KRWFC Loan documents, Christian District shall file with the Commission an electronic version of the loan documents.

6. The proceeds from the proposed KRWFC Loan shall be used only for the lawful purposes set out in Christian District's application.

7. The terms and conditions of the KRWFC Loan shall be consistent with the loan proposal as described in Christian District's application.

IT IS THEREFORE ORDERED that:

1. Christian District's motion to amend filed on September 1, 2021, is granted and any reference to the application in this matter is to the application as amended.

2. Christian 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 Christian District's application.

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

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

5. 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.

6. 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



ATTEST:


Executive Director

Case No. 2021-00322

*James Owen
General Manager
Christian County Water District
1940 Dawson Springs Road
P. O. Box 7
Hopkinsville, KY 42241-0007

*Christian County Water District
1940 Dawson Springs Road
P. O. Box 7
Hopkinsville, KY 42241-0007

*Kristen Millard
Raymond James Financial Services
300 West Vine Street
Lexington, KENTUCKY 40507

*Honorable W. Randall Jones
Attorney at Law
Rubin & Hays
Kentucky Home Trust Building
450 South Third Street
Louisville, KENTUCKY 40202