

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE CARROLL)	
COUNTY WATER DISTRICT NO. 1 FOR)	
APPROVAL TO ISSUE SECURITIES IN THE)	
APPROXIMATE PRINCIPAL AMOUNT OF)	CASE NO.
\$3,145,000 FOR THE PURPOSE OF)	2021-00323
REFINANCING OUTSTANDING OBLIGATIONS)	
OF THE DISTRICT PURSUANT TO THE)	
PROVISIONS OF KRS 278.300 AND 807 KAR)	
5:001)	

ORDER

On August 18, 2021, Carroll County Water District #1 (Carroll District #1), pursuant to KRS 278.300 and 807 KAR 5:001, filed an application seeking Commission authority to enter into a loan agreement (Loan) from Kentucky Rural Water Finance Corporation (KRWFC) to borrow approximately \$3,145,000. The proceeds of which will be used for the purpose of refinancing certain outstanding debt obligations of Carroll District #1, and to pay the costs of issuance of the Loan. Carroll District #1, a water district organized under KRS Chapter 74, owns and operates facilities that provide retail water service to 2,777 residential customers in Carroll, Gallatin, and Owen counties, Kentucky.¹ There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

¹ *Annual Report of Carroll District System to the Public Service Commission of the Commonwealth of Kentucky for the Calendar year Ended December 31, 2020* (2020 Annual Report) at 12 and 49.

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.”² 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 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

Carroll District #1 proposes to execute the Loan with KRWFC to borrow \$3,145,000.³ The proposed Loan will have a 20-year term subject to interest rates that will vary from 2.00 percent to 2.60 percent per annum.⁴ Carroll District #1 proposes to use the proceeds from the KRWFC Loan for the purpose of refinance an outstanding loan from KRWFC designated as KRWFC Public Projects Refunding Revenue Bonds with an original principal amount of \$3,785,000 (Series 2012D), dated March 28, 2012.⁵ In

² KRS 278.300(1).

³ Application at 2, paragraph 5.

⁴ *Id.*, Exhibit A.

⁵ Application at 2, paragraph 5. The 2012 KRWFC Loan was approved by the Commission in Case No. 2012-00046, *Application of Carroll County Water District No. 1 to Issue Securities in the Approximate Principal Amount of \$3,820,000 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 Mar. 20, 2012).

addition, the proceeds will also be used to refinance a Waterworks Revenue Bond held by the United States Department of Agriculture acting through Rural Development (RD), Series 2005A, dated February 2, 2006, in the original principal amount of \$592,000, bearing interest at the rate of 4.375 percent per annum.⁶

Carroll District #1 estimates that it will expend \$3,315,450.76 to refund the KRWFC Loan.⁷ Carroll District #1 provided a Debt Service Comparison indicating that the refinancing would save \$583,264.45⁸ over the life of the proposed Loan, resulting in a positive net present value (NPV) cash flow savings of \$513,601.34.⁹

DISCUSSION AND FINDINGS

Carroll District #1's 2019 annual water loss was 11.62 percent.¹⁰ The cost of the water loss at 11.62 percent is approximately \$20,064.¹¹ Commission regulation 807 KAR 5:066(6)(3) states that for ratemaking purposes a utility's water loss shall not exceed 15

⁶ *Id.* The 2005 RD Bond was approved by the Commission in Case No. 2005-00324, *Application of Carroll County Water District No. 1 for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023*, (Ky. PSC Aug. 26, 2005).

⁷ *Id.*, Exhibit B, Sources and Uses. Uses of Funds: \$55,037.50 (Total Underwriter's Discount) + \$53,820.00 (Costs of Issuances) + \$3,205,519.07 (Deposit to Current Refunding Fund) + \$1,074.19 (Rounding Amount) = \$3,315,450.76.

⁸ *Id.*, Exhibit C.

⁹ *Id.*

¹⁰ 2020 Annual Report at 58.

¹¹

	Purchased Power	Chemicals	Total
2020 Reported Expenses	\$ 164,482	\$ 8,134	\$ 172,616
Multiplied by: Water Loss	11.62%	11.62%	11.62%
Excess Purchased Water and Pumping Cost	19,118	945	20,064
Total			\$ 20,064

percent of total water produced and purchased, excluding water consumed by a utility in its own operations.

The Commission commends Carroll District #1 on its low levels of water loss, and encourages Carroll District #1 to pursue reasonable actions to continue to prevent water loss in excess of 15 percent.

The Commission has reviewed the proposed refinancing and finds Carroll District #1's proposal to be reasonable due to the lower effective interest rate and cash flow savings Carroll District #1 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, Carroll District #1 should not proceed with the refinancing unless the NPV of the refinancing results in positive cash flow.

The Commission further finds that that Carroll District #1 satisfied the legal standards established in KRS 278.300 for the reasons that follow. First, the lawful object of Carroll District #1'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 will be used to refinance two issues of indebtedness previously approved by the Commission and is intended to strengthen the financial position of Carroll District #1 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 Carroll District #1'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

Carroll District #1 to meet its statutory duty to provide safe, adequate, and reliable service because the current low interest rate environment will allow Carroll District #1 to achieve the NPV savings. For the reasons set forth above, the Commission further finds that Carroll District #1 should be authorized to enter into the proposed Assistance Agreement with KRWFC in order to refinance its existing debt obligations to KRWFC.

The Commission commends Carroll District #1 for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its customers. However, the Commission is concerned with Carroll District #1's prolonged absence from the Commission's review of its asset management through an application for adjustment of its rates. The Commission notes that, according to Carroll District #1's audit reports, Carroll District #1 has had a negative net income for four of the last five years and a fluctuating level in cash during the last five years, as shown below.¹²

Year	2016	2017	2018	2019	2020
Net Income	\$ 159,547	\$ (104,644)	\$ (146,414)	\$ (277,522)	\$ (168,969)
Add: Depreciation Expense	451,230	448,323	444,672	439,365	443,605
Cash Basis Income	<u>\$ 610,777</u>	<u>\$ 343,679</u>	<u>\$ 298,258</u>	<u>\$ 161,843</u>	<u>\$ 274,636</u>
Year	2016	2017	2018	2019	2020
Cash and Cash Equivalents	\$ 1,853,075	\$ 1,936,898	\$ 1,908,403	\$ 1,779,188	\$ 1,863,691
Depreciation Reserve	955,768	974,785	997,005	1,024,828	1,150,769
Net Increase (Decrease) in Cash	(22,808)	83,823	(28,495)	(129,215)	84,503
Water loss	9.66%	15.46%	9.21%	9.76%	11.62%
Total number of customers	2957	2955	2967	2981	3066

¹² Carroll County Water #1's Audit Reports can be found on the Commission's Website at:
https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_19600_2020_1.pdf
https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_19600_2019_1.pdf
https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_19600_2018_1.pdf
https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_19600_2017_2.pdf
https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_19600_2016_1.pdf

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 Carroll District #1; 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. Carroll District #1 should execute its note as security for the proposed Loan in the manner described in its application.

3. The final amounts of the KRWFC Loan payoff, the legal fees, and the new KRWFC Loan will not be known until the refinancing transaction is finalized. Therefore, Carroll District #1 should provide the Commission an updated version the application, Exhibit C, reflecting the cash flow analysis of the new KRWFC Loan within ten days of finalizing the transaction.

4. Within ten days of the execution of the new KRWFC Loan documents, Carroll District #1 should file with the Commission an electronic version of the Loan documents. The Commission directs Carroll District #1 to the Commission's July 22, 2021 Order in Case No. 2020-00085¹³ regarding filings with the Commission.

5. The proceeds from the proposed Loan should be used only for the lawful purposes set out in Carroll District #1's application.

¹³ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

6. The terms and conditions of the new KRWFC Loan should be consistent with the KRWFC assistance agreement as described in Carroll District #1's application.

7. Carroll District #1 should file for an adjustment in base rates or file for an alternative rate filing within nine months of the date of filing of this Order to ensure that its rates are sufficient or, in the alternative, file a formal motion with a detailed analysis of its rates and state the reasons why no rate modifications are necessary.

IT IS THEREFORE ORDERED that:

1. Carroll District #1 is authorized to enter into the Loan with KRWFC to borrow no more than the total amount to pay off the 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 Loan agreement as described in Carroll District #1's application.

2. Carroll District #1 shall execute the KRWFC Loan documents as authorized herein.

3. Carroll District #1 shall comply with all matters set out in finding paragraphs 3 through 7 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. Carroll District #1 shall file for an adjustment in base rates or file for an alternative rate filing within nine months 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.

6. This case is 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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

By the Commission

ENTERED
SEP 17 2021 rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2021-00323

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

*Carroll County Water District #1
205 Main Cross Street
P. O. Box 350
Ghent, KY 41045

*Obe Cox
Carroll County Water District #1
205 Main Cross Street
Ghent, KY 41045

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