

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE MARTIN)	
COUNTY WATER DISTRICT TO ISSUE)	
SECURITIES IN THE APPROXIMATE PRINCIPAL)	
AMOUNT OF \$1,323,623.15 FOR THE PURPOSE)	CASE NO.
OF REFINANCING CERTAIN OUTSTANDING)	2023-00407
OBLIGATIONS OF THE DISTRICT PURSUANT TO)	
THE PROVISIONS OF KRS 278.300 AND 807 KAR)	
5:001)	

ORDER

On December 11, 2023, Martin County Water District (Martin District), pursuant to KRS 278.300 and 807 KAR 5:001, filed an application seeking Commission authority to issue certain securities in the approximate principal amount of \$1,323,623.15. The proceeds of the issuance will be used for the purpose of refinancing outstanding indebtedness of Martin District.

Martin District, a water district organized under KRS Chapter 74, owns and operates facilities that provide retail water service to 3,374 residential customers in Martin County, Kentucky.¹ There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the written record.

¹ *Annual Report of Martin District to the Public Service Commission for the Calendar year Ended December 31, 2022* (2022 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

Martin District proposed to borrow funds from the Kentucky Infrastructure Authority (KIA) through the Water Management Assistance Fund (WMAF Loan) in the amount of approximately \$1,323,623.15.³ The proposed loan will have a 20-year term at an interest rate of 0.00 percent per annum with a conditional 50 percent principal forgiveness provision on July 1, 2027.⁴ Martin District proposed to use the proceeds from the issuance for the purpose of refinancing a loan from KIA (KIA Loan), with an original principal amount of \$1,329,826 dated November 1, 1996,⁵ bearing interest at a rate of 3.00 percent, as well as a loan from Kentucky Rural Water Finance Corporation (KRWFC

² KRS 278.300(1).

³ Application at 2, paragraph 5.

⁴ Application at 2, paragraph 5.

⁵ Application at 2, paragraph 5.

Loan), with an original principal amount of \$1,110,000 dated April 20, 2022, bearing interest at a rate of 3.25 percent annum.⁶ Martin District stated that the KRWFC Loan and KIA Loan are due and payable on February 1, 2024. The WMAF Loan was approved pursuant to a Resolution by the KIA Board of Directors at its meeting held on December 7, 2023.⁷

Martin District estimates that it will expend \$1,117,037.40 to refund the KIA Loan and the KRWFC Loan.⁸ Martin District's outstanding principal on its KIA Loan is \$218,767⁹ and the remaining principal on its KRWFC Loan is \$1,100,000.¹⁰ Martin District will have an annual payment of \$66,181;¹¹ therefore, after 4 years, Martin District will have paid \$264,725¹² in principal resulting in a remaining principal balance of \$1,058,899 of which 50 percent, \$529,449, will be forgiven by KIA at the end of 2027.¹³ Martin District should see savings for the refinance of the loans of \$23,728¹⁴ and, later in 2027, an additional \$529,449 of debt forgiveness as previously addressed.

⁶ Application at 3, paragraph 5.

⁷ Authorizing Resolution filed December 12, 2023.

⁸ Application, Exhibit B, Sources and Uses, Uses of Funds: \$4,520 (Total Underwriter's Discount .407 percent) + \$45,000 (Costs of Issuances) + \$64,233.54 (Deposit to Capitalized Interest Fund) + \$1,000,000 (Deposit to Project Construction Fund) + \$3,283.86 (Rounding Amount) = \$1,117,037.40.

⁹ Application, Exhibit D, Payoff Letter on the KIA Funds B Loan.

¹⁰ Application, Exhibit B, Payoff Letter on the KRWFC Loan.

¹¹ Application, Exhibit F, Executive Summary at 1

¹² \$66,181 Annual Payment * 4 years = \$264,725.

¹³ Application, Exhibit F, Executive Summary at 5, Item XI.

¹⁴ 2024 Debt payoff for KRWFC Loan \$1,128,03 + KIA Loan \$219,313 = \$1,347,351, less Total WMAF Loan \$1,323,623 = \$23,728.

In support of its application, Martin District stated that the WMFA Loan is in the public interest and is intended to strengthen the financial condition of Martin District by reducing current debt service payments, which will provide more operating capital for necessary repairs to Martin District's system.¹⁵ Refinancing the Loan Should result in a total savings of \$817,902.

DISCUSSION AND FINDINGS

Having reviewed the proposed refinancing, the Commission finds Martin District's proposal to be reasonable as it will strengthen its financial condition by reducing current debt service payments and providing more operating capital to address continuing improvements and repairs to its distribution system.

The Commission further finds that that Martin District satisfied the legal standards established in KRS 278.300 for the reasons that follow. First, the lawful object of Martin District's purpose is to provide adequate, efficient and reasonable water service to the public.¹⁶ The refinancing meets the lawful object of the utility's purposes because it will be used to refinance loans previously approved by the Commission and is intended to strengthen the financial position of Martin District through reducing current debt service payments in order to provide more operating capital. Second, the financing is appropriate for the proper performance by the utility and will not impair its ability to perform that service because the WMAF loan is exclusively for the purposes of refinancing existing debt and achieving debt service NPV savings. No other aspects of Martin District's operations or finances will change, except those related to the refinancing of existing debt

¹⁵ Application at 4, paragraph 10.

¹⁶ KRS 278.030(2).

as outlined in the application and this Order. Third, the financing is a reasonably appropriate option for Martin District to meet its statutory duty to provide adequate, efficient and reasonable service because the current low interest rate environment will allow Martin District to achieve the NPV savings. For the reasons set forth above, the Commission finds that Martin District should be authorized to enter into the proposed Assistance Agreement with KIA in order to refinance its existing debt obligations to KIA and KRWFC. The Commission further finds that periodic monitoring of Martin District's revenue sufficiency is necessary.

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

1. The proposed security is for lawful objects within the corporate purposes of Martin 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. Martin District should secure the proposed loan in the manner described in its application.
3. Within ten days of the execution of the new security issuance, Martin District should file an electronic version of the new WMAF loan documents with the Commission.
4. The proceeds from the proposed new WMAF loan should be used only for the lawful purposes set out in Martin District's application.
5. The terms and conditions of the new WMAF loan should be consistent with the KIA assistance agreement as described in Martin District's application.

6. Martin District should file a revenue sufficiency report for the calendar year 2023, based on final 2023 results, and for the calendar year 2024, based on projected 2024 results, for the calendar year 2024, based on projected 2024 results, including adjustments for excess water loss for each report, with the Commission by December 31, 2024.

IT IS THEREFORE ORDERED that:

1. Martin District is authorized to enter into the loan with WMAF 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 WMAF loan maturity date and interest rate shall be in accordance with the WMAF loan agreement as described in Martin District's application.

2. Martin District shall execute the WMAF loan documents as authorized herein.

3. Martin District shall comply with all matters set out in finding paragraphs 2 through 6 as if they were individually so ordered.

4. Any documents filed in the future pursuant to finding paragraphs 3 and 6 shall reference this case number and shall be retained in the post-case correspondence file.

5. Martin District shall file a revenue sufficiency report for the calendar year 2023, based on final 2023 results, including adjustments for excess water loss, with the Commission by December 31, 2024.

6. Martin District shall file a revenue sufficiency report for the calendar year 2024, based on projected 2024 results, including adjustments for excess water loss, with the Commission by December 31, 2025.

7. 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.

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PUBLIC SERVICE COMMISSION

Kurt Chalmers
Chairman

ADH
Vice Chairman

May Pat Regan
Commissioner

ENTERED
JAN 17 2024 rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

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