

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF JESSAMINE-)	CASE NO.
SOUTH ELKHORN WATER DISTRICT FOR)	2024-00298
APPROVAL TO REFINANCE INDEBTEDNESS)	

ORDER

On October 9, 2024, Jessamine-South Elkhorn Water District (Jessamine-South District), pursuant to KRS 278.300 and 807 KAR 5:001, filed an application¹ seeking Commission authority to issue two Farmers Bank loans in the principal amounts of \$125,000 and \$244,000.² The proceeds of the issuance will be used for the purpose of refinancing outstanding indebtedness of Jessamine-South District. The Commission notes that Jessamine-South District filed a Notice of Intent on September 10, 2024,³ but did not file its application until October 7, 2024,⁴ after the maturity of the original Central Bank loans on September 30, 2024.⁵ After Jessamine-South District cured a deficiency, the application was deemed filed on October 9, 2024.⁶ An order was issued December 4, 2024 to extend the statutory date from December 8, 2024, to January 10, 2025.⁷

¹ Application for Approval of Refinancing (Application) tendered on October 7, 2024.

² Application, Ex_1_Loan_terms.pdf.

³ Application, Application_Refinance.pdf.

⁴ Application.

⁵ Application, Ex_5_List_indebtedness.pdf.

⁶ Amended Cover Letter.

⁷ PSC_Order.

Jessamine-South District, a water district organized under KRS Chapter 74, owns and operates facilities that provide retail water service to approximately 3,093 residential customers and 188 commercial customers in Jessamine County, Kentucky.⁸ There are no intervenors in this case and the matter is submitted to the Commission for a decision based upon the written 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.”⁹ KRS 278.300(3) establishes the legal standard and clarifies the scope of Commission review and provides:

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

Jessamine-South District proposed to issue securities of \$125,000 and \$244,000 to refinance two obligations that matured in September 2024. Jessamine-South District considered two financing options offered in packages, Farmers Bank and Central Bank.

⁸ *Annual Report of Jessamine-South District to the Public Service Commission for the Calendar Year Ended December 31, 2023* at 11 and 49.

⁹ KRS 278.300(1).

The first obligation, an unsecured Central Bank loan, had a 4.0 percent interest rate,¹⁰ and is proposed to be replaced with an unsecured Farmers Bank loan for \$125,000 with a 5.63 percent interest rate, no balloon payment, and a 2-year term (Farmers Bank Loan 1).¹¹ The Central Bank option includes a 7.75 percent interest rate, year three balloon payment, and three-year term proposed loan.¹² Farmers Bank Loan 1 will save the district \$13,793 compared to Central Bank.

The second matured Central Bank mortgage loan had a 4.0 percent interest rate¹³, and it is proposed to be replaced with a Farmers Bank mortgage loan for \$244,000 with a 5.28 percent interest rate, a year 5 balloon payment, and a 5-year term (Farmers Bank Loan 2).¹⁴ The Central Bank replacement option includes a 7.50 percent interest rate, year 3 balloon payment, and 3-year term proposed loan.¹⁵ Farmers Bank Loan 2 will cost the district an additional \$2,332¹⁶ compared to the Central Bank 7.5 percent interest rate, year 3 balloon payment, and 3-year term proposed loan, however Jessamine-South District states that deferring the lump sum payments will be beneficial to district's customers.¹⁷ Overall, financing the expired Central Bank debt with Farmers Bank loans

¹⁰ Application, Ex_5_List_indebteness.pdf.

¹¹ Application, Ex_1_Loan_terms.pdf.

¹² Application, Ex_9_Farmers_v_Central_Comparison.pdf.

¹³ Application, Ex_5_List_indebteness.pdf.

¹⁴ Application, Ex_1_Loan_terms.pdf.

¹⁵ Application, Ex_9_Farmers_v_Central_Comparison.pdf.

¹⁶ Application, Ex_9_Farmers_v_Central_Comparison.pdf.

¹⁷ Application at 2.

will result in net savings to Jessamine-South District of \$11,460.¹⁸ Jessamine-South District reviewed the two proposals and selected the Farmers Bank package over the Central Bank package based on total savings.

DISCUSSION AND FINDINGS

After consideration of the evidence of record and being sufficiently advised, the Commission finds that Jessamine-South District satisfied the legal standards established in KRS 278.300 for the following reasons.

First, the lawful object of Jessamine-South District's purpose is to provide adequate, efficient and reasonable water service to the public.¹⁹ The refinancing meets the lawful object of the utility's purposes because it will be used to refinance existing loans and is intended to strengthen the financial position of Jessamine-South District by fixing the current debt service payments.

Second, the financing is appropriate for the proper performance by the utility and will not impair its ability to perform that service because the proposed Farmers Bank loans are exclusively for the purposes of refinancing existing debt. No other aspects of Jessamine-South 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 Jessamine-South District to meet its statutory duty to provide adequate, efficient and reasonable service because it will allow the utility to plan and budget accordingly.

¹⁸ Application, Ex_9_Farmers_v_Central_Comparison.pdf.

¹⁹ KRS 278.030(2).

For the reasons set forth above, the Commission finds that Jessamine-South District should be authorized to enter into the proposed Farmers Bank loans in order to refinance its existing debt obligations to Central Bank.

The Commission emphasizes the importance of timely filing in future cases to afford the Commission time to evaluate a refinancing request. Here, Jessamine-South District filed its notice of intent for approval to refinance two loans that matured in September 2024, on September 10, 2024, tendering its application for same on October 7, 2024.²⁰ While the Commission authorized Jessamine-South District to refinance its existing debt, the timing of Jessamine-South District's request to the Commission regarding this debt could be evidence of mismanagement. Thus, the Commission reminds Jessamine-South District that it has the responsibility to ensure that it follows the Commission's statutes and regulations and that all statutory and regulatory approvals are obtained.

Finally, Jessamine-South District last general rate adjustment occurred September 22, 2022.²¹ Periodic assessments and, if necessary, adjustments to a utility's general rates are necessary to ensure adequate service at reasonable rates. Accordingly, the Commission finds that a filing seeking a general rate adjustment, an alternative rate adjustment, or a detailed filing, including supporting evidence, showing cause why such an adjustment is unnecessary, should be filed on or before September 30, 2029, based on the 2028 test year, once the impact of the refinancing is reflected in the revenue requirement.

²⁰ September 10, 2024 Notice of Intent. October 7, 2024 Application, accepted for filing October 9, 2024. Application, Ex_4_Debt_Service_Detail.

²¹ PSC_Order Case No. 2022-00050.

IT IS THEREFORE ORDERED that:

1. Jessamine-South District is authorized to enter into two loans with Farmers Bank to borrow no more than the total amount necessary to pay off the indebtedness proposed to be refinanced as identified in the application.

2. Jessamine-South District shall execute the proposed loans in the manner described in its application.

3. Jessamine-South District shall be timely in future refinancing cases and file refinancing cases before debt has matured.

4. Jessamine-South District shall file a general rate adjustment, an alternative rate adjustment, or a detailed filing, including supporting evidence, showing cause why such an adjustment is unnecessary on or before September 30, 2029, based on the 2028 test year.

5. Within 30 days of execution of the loan documents, Jessamine-South District shall file an electronic version of the new loan documents with the Commission.

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.

PUBLIC SERVICE COMMISSION



Chairman



Commissioner

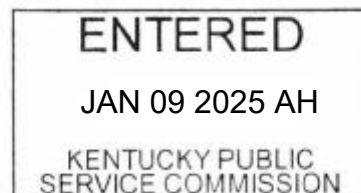


Commissioner

ATTEST:



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