

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. WF-97-349, Tri-State Utility, Inc.

FROM: Randy Z. Wright, Financial Analysis Department *RZW jwm*

Thomas Radtke 3/6/97
Director - Utility Services Division / Date

W. K. Haas 3/7/97
General Counsel's Office / Date

SUBJECT: Staff's Recommendation for approval of the Application of Tri-State Utility, Inc. for Authority to borrow up to \$1,300,000.

DATE: March 6, 1997

Tri-State Utility, Inc.

FILED

MAR 7 - 1997

PUBLIC SERVICE COMMISSION

1. (a) **Type of Issue:** Secured Promissory Note.
- (b) **Amount:** \$1,300,000 Promissory Note.
- (c) **Rate:** The interest rate on the Promissory Note will be variable, with an initial rate of 10.00 percent per annum. The variable rate is computed by adding 1.75 percentage points to the lender's Prime lending rate.
- (d) **Other Provisions:** The Promissory Note will have a stated maturity date of three (3) years from the date of issue, with payments based on a twenty year amortization.
2. **Proposed Date of Transaction:** As soon as the Commission so authorizes.
3. (a) **Statement of Purpose of the Issue:** To refinance existing short-term debt used for construction; finance engineering costs for an expansion project and for any other appropriate purposes.
- (b) **From a financial perspective, does Staff deem this purpose reasonable? :**
Yes No
4. **Type of Transaction:** The Company will issue a Promissory Note to Great Southern Bank, FSB, secured by a Deed of Trust.
5. **Copies of executed instruments defining terms of the proposed securities:**

- ___ (a) If such instruments have been previously filed with the Commission, a reference to the Case Number in which the instruments were furnished.
- X (b) If such instruments have not been executed at the time of filing, a statement of the general terms and conditions to be contained in the instruments which are proposed to be executed.
- ___ (c) If no such instruments are either executed or to be executed, a statement of how the securities are to be sold.
6. **Certified copy of resolution of the directors of applicant, or other legal documents authorizing the issuance of the securities reviewed:**
- Yes X No ___
7. **Pro-forma Balance Sheet and Income Statement reviewed:**
- Yes X No ___
8. **Capital expenditure schedule reviewed:**
- Yes X No ___
9. **Journal entries are required to be filed by the Company to allow for the Fee Schedule to be applied:**
- Yes X No ___
10. **Recommendation of the Financial Analysis Department:**
- X Grant by session order (see Comments)
- ___ Conditional Approval granted pending receipt of definite terms of issuance (see Comments)
- ___ Require additional and/or revised data before approval can be granted (see Comments)
- ___ Formal hearing required (see Comments)
- ___ Recommend dismissal (see Comments)

COMMENTS:

Tri-State Utility, Inc. (Tri-State, Company) is a public utility rendering water service to the public in Taney County, Missouri.

On June 13, 1996, Tri-State filed an Application (WF-96-435) stating, "Applicant proposes to borrow certain sums, not to exceed \$1,300,000, from the National Bank for Cooperatives ('CoBank') in order to refinance the Applicant's existing indebtedness and to finance the operating needs of the Applicant." On July 19, 1996, the Commission filed an Order Approving Financing. Thereafter, Tri-State was unable to complete the loan transaction with CoBank and on December 12, 1996, filed a Request to Substitute Lender to Mercantile Bank. That request was denied by the Commission on January 14, 1997, on the basis that the two transactions were dissimilar.

The Company has two short-term notes and a letter of credit loan at Mercantile Bank. The Company has used the proceeds of the notes and letter of credit to construct utility plant. The Company proposes to refinance the balance of construction loans at Mercantile Bank totaling \$1,116,037.80, with Great Southern Bank, FSB (Great Southern). The remaining \$183,962.20 is needed to finance engineering costs on an expansion project and for any other appropriate purposes. Therefore, the Company is only increasing its total debt by \$183,962.20, or 16.48 percent. Additionally, the Company asserts that only \$183,962.20 of the total proposed financing is subject to the fee schedule per § 386.300 RSMo, 1986. However, the Staff is of the opinion that this is a new loan and therefore the entire amount of \$1.3 million should be subject to the fee schedule because the short-term construction loans were not subject to the fee schedule.

The proposed Promissory Note for \$1,300,000 will be executed with a variable interest rate, with an initial rate of 10.00 percent per annum. The variable rate is computed by adding 1.75 percentage points to Great Southern's Prime lending rate (presently at 8.25 percent). At present, Great Southern's Prime rate is equal to the Prime rate as published in *The Wall Street Journal*. While higher than the rates proposed in the previous case (WF-96-435), the Staff finds this interest rate reasonable, given current economic conditions and Tri-State's difficulty in its attempt to refinance its debt.

An additional condition of the proposed Note is for evidence of life insurance for the Company's President Harold Epps, in the amount of \$270,000, payable to Great Southern in the event his death. The Staff believes this to be a reasonable condition and is generally required by lenders to smaller businesses.

Based upon its review in this case, Staff therefore recommends that the Commission approve the financing requested.

At the Company's request, the Staff respectfully asks that this matter be placed on the Commission's Agenda as soon as possible, since the Company has been attempting to roll-over its short-term debt since June 1996.

Copies: Director - Utility Operations Division
Director - Utility Services Division
Manager - Financial Analysis Department
Manager - Accounting Department
Charles Fain, Company Counsel

Director - Policy and Planning Division
General Counsel
Manager - Water and Sewer Department
Office of the Public Counsel
Harold Epps, Company President