

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

IN RE:

**PETITION OF TENNESSEE
WASTEWATER SYSTEMS, INC.
FOR APPROVAL OF
CAPITAL IMPROVEMENT
SURCHARGES AND FINANCING
ARRANGEMENTS**

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DOCKET NO. 14-00136

**REBUTTAL TESTIMONY
OF
FRED HOWELL**

ON BEHALF OF TENNESSEE WASTEWATER SYSTEMS, INC.

August 19, 2015

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12 **REBUTTAL TESTIMONY OF FRED HOWELL**

15 **Q. What is your name and occupation?**

16 A. I am Fred Howell, a Senior Vice President at FirstBank. I work in the bank's
17 Murfreesboro office, located at 615 Memorial Boulevard, Murfreesboro, Tennessee.

19 **Q. What is the purpose of your testimony in this case?**

20 A. The purpose of my testimony is to support the testimony of Mr. Charles Hyatt, president
21 of Tennessee Wastewater Systems, Inc. ("TWSI") regarding the terms of a proposed loan
22 from FirstBank to TWSI and to respond to the direct testimony of Mr. William Novak
23 concerning the proposed loan.

25 **Q. Please describe the proposed loan.**

26 A. The terms of the loan are set forth in Exhibit G, attached to TWSI's Petition. As
27 explained therein, this will be a "construction/permanent" loan of up to \$725,000 to
28 provide funds to make improvements to TWSI sites at three locations—Maple Green,
29 Cedar Hill, and Smokey Village. As is typical of a construction loan, TWSI will have a

1 line of credit of up to \$725,000. Funds will be advanced as needed upon the presentation
2 of invoices related to those projects. The term of the loan is for ten years. The loan is to
3 be guaranteed on a joint and several basis by Adenus Group, LLC and the four Pickney
4 brothers: Charles, William, Thomas and Robert. The individual guaranties will be
5 collateralized by a combination of real estate and certificates of deposit having a total,
6 aggregate value of at least \$300,000. The real estate to be used as collateral includes
7 property owned by TWSI and used for the provision of wastewater services at Smokey
8 Village, Maple Green, and Cedar Hill. The collateral also includes the "assignment of the
9 Rate Increase Account."

10
11 **Q. Please explain the assignment.**

12 A. As stated in the term sheet, the bank's offer of this loan is contingent upon approval by
13 the Tennessee Regulatory Authority of a rate increase as requested in this docket. If the
14 TRA approves the request, the additional revenue received by TWSI "will be deposited
15 monthly with Lender (the 'Rate Increase Account'); monthly payments to be made via
16 auto debit from the Rate Increase Account." In other words, FirstBank will not make the
17 loan unless the TRA approves a rate increase sufficient to repay the loan. That additional
18 money will be held by the bank in a separate account and used for loan repayment.

19
20 **Q. Explain the reason for this requirement.**

21 A. I am familiar with TWSI and FirstBank has been working with the company for several
22 years. We understand the company's business model. Under that model, the developer
23 pays the initial costs of building a wastewater collection and treatment facility and then,

1 once the system is complete, turns the system over to TWSI to own and operate.
2 Therefore, unlike a large, traditional utility, TWSI does not finance capital projects by
3 issuing debt or equity. When a situation arises requiring TWSI to make a substantial
4 capital investment in order to repair or enlarge a wastewater facility, TWSI must borrow
5 the money from a lending institution and, as a regulated utility, must seek permission of
6 the TRA not only to borrow the money but also to increase rates to repay the loan.
7 Without a rate increase, TWSI cannot repay the requested loan. Therefore, although
8 TWSI is a financially sound company, the bank is not willing to make a loan of this
9 amount without the assurance that the TRA will allow TWSI to increase its rates as
10 necessary to repay the loan.

11
12 **Q. Do you have any response to the testimony of Mr. Novak?**

13 A. Yes. Mr. Novak testifies at p. 4 that it is unusual for a utility to seek approval of a loan
14 while simultaneously seeking approval of a rate surcharge to repay the loan. He states
15 that to his knowledge the TRA has "never approved financing of a capital project before
16 its completion." I do not know whether this kind of request is unusual or not for a public
17 utility, but it is not unusual in the banking business for a lender to require that the
18 borrower demonstrate that the loan can be repaid from the borrower's anticipated
19 revenue. Given TWSI's business model, it is unrealistic to expect that a bank would
20 make a loan of this amount without the assurance of a rate increase.

21
22 **Q. Does this complete your testimony?**

23 A. Yes, it does.