

Exhibit No. _____
Issues: Debt Financing
Witness: Martin W. Moore
Type of Exhibit: Direct Testimony
Sponsoring Party: Elm Hills Utility Operating
Company, Inc
File Nos.: WR-2020-0275
Date: October 22, 2020

Missouri Public Service Commission

Direct Testimony

of

Martin W. Moore

On Behalf of

Elm Hills Utility Operating Company, Inc

October 22, 2020

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**DIRECT TESTIMONY OF
MARTIN W. MOORE
ELM HILLS UTILITY OPERATING COMPANY, INC.**

WITNESS INTRODUCTION

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Martin W. Moore, 1650 Des Peres Road, Suite 303, St. Louis, MO 63131

Q. WHAT IS YOUR POSITION WITH CSWR, LLC, AND ELM HILLS UTILITY OPERATING COMPANY, INC.?

A. I am the Chief Financial Officer and Treasurer of both entities.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS CHIEF FINANCIAL OFFICER.

A. I am responsible for financial reporting and other administrative duties in support of CSWR, LLC-affiliated companies, including Elm Hills Utility Operating Company, Inc. ("Elm Hills"). This includes financial reporting, budgeting, tax reporting/compliance, risk management, capital planning and financing, human resources and other administrative duties as needed.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. No.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.

A. I am a graduate of Abilene Christian University, with a Bachelor of Business Administration degree. I am a Certified Public Accountant. I began my career working for Arthur Andersen as a public accountant before joining a client's

1 business as Chief Financial Officer. I have more than 25 years of experience as
2 a senior leader (CFO/COO/CEO) of businesses varying in size, industries and
3 geographic locations. I have attended and completed the Regulatory Studies
4 Program at the Institute of Public Utilities at Michigan State University. I have
5 served as a board member and Chairman of multiple organizations and private
6 company boards.

7 **PURPOSE**

8 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS CASE?**

9 A. The purpose of my testimony is to report to the Commission that CSWR and Elm
10 Hills have successfully attracted multiple offers of commercial bank debt in
11 support of refinancing previous Commission-approved debt. Elm Hills desires to
12 replace its current debt with the recently obtained debt offered by a commercial
13 bank. The bank offers are demonstrated as **Schedules MWM-1C** and **MWM-2C**.
14 **Schedules MWM-1C** and **MWM-2C** are marked “Confidential” in accordance
15 with Commission Rule 20 CSR 4240-2.135(2)(A)(4) and (6), as they contain
16 market specific information and information representing strategies employed in
17 contract negotiations.

18 **DEBT FINANCING**

19 **Q. PLEASE DESCRIBE WHAT STEPS CSWR AND ELM HILLS HAVE TAKEN**
20 **TO SECURE DEBT FINANCING.**

21 A. Over the last several months, CSWR and Elm Hills’ management have discussed
22 the utility’s operations with multiple banks. Because of COVID 19-related

1 restrictions, these discussions were held via conference calls and video
2 conferencing.

3 **Q. HAVE YOU ENCOUNTERED ANY DIFFICULTIES IN YOUR EFFORTS TO**
4 **SECURE DEBT FINANCING FOR ELM HILLS?**

5 A. CSWR and Elm Hills have met with significant resistance from commercial
6 lenders due to Elm Hills' ongoing cash losses, resulting from the historic rate
7 structure. For example, Elm Hills' 2018 Annual Report shows a net operating
8 loss from water operations of more than \$122,000 and a net operating loss from
9 sewer operations of more than \$76,000. The 2019 Annual Report shows the net
10 operating loss from water operations grew to more than \$164,000 and the loss
11 from sewer operations grew to more than \$228,000. Those initial cash losses
12 are typical in the small distressed system types that make up Elm Hills. Prior to
13 Elm Hills investment, these systems were in various states of severe distress
14 including state appointed receivership, Missouri Department of Natural
15 Resources (MDNR) significant non-compliance, and some systems were owned
16 by home owner associations with a lack of resources and skill set to successfully
17 own or operate utilities. The majority of lenders have simply replied that we
18 should "come back when you have a cash flow positive borrower," which is
19 impossible for typical distressed utilities.

20 **Q. PLEASE DESCRIBE THE DIFFICULTIES YOU HAVE ENCOUNTERED AND**
21 **THE REASONS FOR THOSE DIFFICULTIES.**

22 A. Beyond the difficulty all parties are experiencing in the marketplace as a result of
23 COVIDid-19 limitations on in-person meetings, the negative cash flow history of

1 Elm Hills is a significant detriment, as my response to the previous question
2 indicates. To compensate for Elm Hills' historical financial performance (which is
3 tied to small previously distressed utility assets) the banks are requesting parent
4 company guarantees from CSWR as a prerequisite to providing debt capital to
5 Elm Hills. In addition, the lenders we have spoken with want an additional set of
6 corporate collateral as an inducement to lend money to a company with assets
7 that had previous environmental liabilities and a current income statement as
8 weak as the one Elm Hills presents.

9 **Q. ARE THE COMMERCIAL BANKS WILLING TO LEND DIRECTLY TO ELM**
10 **HILLS?**

11 A. No. Both banks that have provided funding offers are not willing to lend funds
12 directly to Elm Hills, because of the historical environmental issues and current
13 financial distress, but are requiring that CSWR establish an intermediary entity to
14 specifically borrow the funds and loan them to Elm Hills. The banks are requiring
15 a pledge of the intermediary entity's capital stock. The intermediary entity would
16 be the party that would secure UCC-1s on the Elm Hills operating assets, after
17 appropriate Commission approval. This structure shields the banks from
18 environmental liability, would allow an asset sale by the bank in the event of
19 default, and thus gives the banks an ability to bring commercial debt to a small
20 utility.

21 **Q. HAVE YOU BEEN SUCCESSFUL IN ATTRACTING COMMERCIAL BANK**
22 **INTEREST FOR ELM HILLS DEBT FINANCING?**

1 A. Yes. In spite of the challenges, CSWR, and Elm Hills have now been successful
2 in obtaining term sheets for long-term financing from commercial banks. Future,
3 final firm loan commitments will be based on financing cases with the
4 Commission, but the two term sheets I have appended to my testimony
5 demonstrate Elm Hills has been able to attract commercial debt providers.

6 **Q. WHAT INTEREST RATES HAVE COMMERCIAL LENDERS PRICED FOR**
7 **LOANS TO ELM HILLS?**

8 A. Based on the conversations we have had with commercial lenders and the
9 attached term sheets, the lenders will ultimately offer to loan Elm Hills debt at an
10 annual interest rate of nine percent (9%), with origination costs of one percent
11 (1%).

12 **Q. HOW IS THIS COMMERCIAL DEBT PRICED?**

13 A. As I have previously stated, Elm Hills is a negative cash flow business and will
14 continue to be such unless the Commission grants the Company the rate relief it
15 needs . In advance of the utility successfully completing its pending rate case
16 before the Commission, most banks we have talked to are unwilling to provide a
17 term sheet for the utility's consideration. From the banks' perspective, Elm Hills
18 is a higher risk borrower, with utility assets that have a previous history of
19 significant environmental compliance issues, and any bank willing to consider
20 making a loan to Elm Hills will require a risk adjusted rate of interest to
21 compensate for Elm Hills' risk profile.

22 **Q. DO YOU BELIEVE THE INTEREST RATE YOU JUST DESCRIBED IS THE**
23 **BEST RATE OF INTEREST ELM HILLS CAN EXPECT FOR THE DEBT**

1 **FINANCING IT HAS BEEN SEEKING, EVEN AFTER THE COMPLETION OF**
2 **THIS RATE CASE?**

3 A. Based upon the conversations Elm Hills has had with prospective lenders, the
4 potential interest rate referenced earlier, given the underlying proposed debt
5 facility and its potential requirements (debt level, interest rate, origination fee
6 structure, amortization schedule, covenants) is favorable to Elm Hills.

7 **Q. WHY DO YOU BELIEVE THAT?**

8 A. The rate is indicative of a risk level adjusted lending rate, which I believe
9 acknowledges the credit enhancement from CSWR as guarantor. Without that
10 parent guaranty, I believe the proposed lenders will be unwilling to make the
11 proposed loan at any rate.

12 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

13 A. Yes.

AFFIDAVIT

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS) ss

I, Martin W. Moore, state I am the Chief Financial Officer and Treasurer of Elm Hills Utility Operating Company, Inc.; the attached Direct Testimony was prepared by me or under my direction and supervision; and, the answers to the questions posed in that testimony are true to the best of my knowledge, information and belief.



Subscribed and sworn to before me this 22nd day of October, 2020.

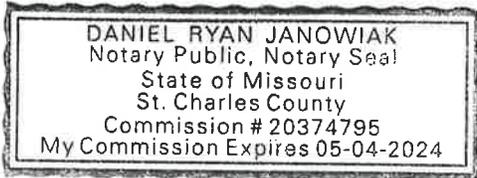


Notary Public

My Commission Expires:

5/4/24

(SEAL)



SCHEDULES MWM-1C AND MWM-2C

HAVE BEEN MARKED

CONFIDENTIAL

IN THEIR ENTIRETY