

# Rubin & Hays

ATTORNEYS AT LAW

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CHARLES S. MUSSON  
W. RANDALL JONES  
CHRISTIAN L. JUCKETT

April 26, 2012

Mr. Jeff Derouen  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, Kentucky 40602

RECEIVED  
APR 30 2012  
PUBLIC SERVICE  
COMMISSION

Re: Southern Water and Sewer District PSC Application

Dear Mr. Derouen:

Enclosed please find the original and ten (10) copies of the Application of the Southern Water and Sewer District for a Certificate of Public Convenience and Necessity to construct and finance pursuant to KRS 278.023.

Also enclosed are eleven (11) copies of the exhibits required pursuant to 807 KAR 5.069, with the **exception of the Preliminary and Final Engineering Reports, of which two copies are enclosed.**

If you need any additional information or documentation, please let us know.

Sincerely,

Rubin & Hays

By   
W. Randall Jones

WRJ:jkm  
Enclosures  
cc: Distribution List

## DISTRIBUTION LIST

**Re: Southern Water and Sewer District**

Mr. Thomas G. Fern  
State Director  
USDA, Rural Development  
771 Corporate Drive, Suite 200  
Lexington, Kentucky 40503-5477

Telephone: (859) 224-7336  
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Mr. Douglas Hoff  
USDA, Rural Development  
220 West First Street  
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Mr. Hubert Halbert  
Southern Water and Sewer District  
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McDowell, Kentucky 41647

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450 South Third Street  
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**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

**RECEIVED**

**THE APPLICATION OF SOUTHERN WATER )  
AND SEWER DISTRICT FOR A CERTIFICATE )  
OF PUBLIC CONVENIENCE AND NECESSITY )  
TO CONSTRUCT AND FINANCE PURSUANT )  
TO KRS 278.023. )**

APR 30 2012  
PUBLIC SERVICE  
COMMISSION

**CASE NO. 2012**

**A P P L I C A T I O N**

This Application of the Southern Water and Sewer District ("Applicant") of Floyd and Knott Counties, Kentucky, respectfully shows:

1. That Applicant is a water district of Floyd and Knott Counties, Kentucky, created and existing under and by virtue of Chapter 74 of the Kentucky Revised Statutes.

2. That the post office address of Applicant is:

Southern Water and Sewer District  
c/o Mr. Hubert Halbert, Manager  
P.O. Box 610  
McDowell, Kentucky 41647

3. That Applicant, pursuant to the provisions of 278.023, seeks (i) a Certificate of Public Convenience and Necessity, permitting Applicant to construct a waterworks construction project, consisting of extensions, additions, and improvements (the "Project") to the existing waterworks system of Applicant; and (ii) approval of the proposed plan of financing said Project.

4. That the Project consists of the (i) construction of a new 100,000 gpd regional water treatment plant and appurtenances; (ii) installation of approximately 26,150 linear feet of sanitary sewer trunk force mains; and (iii) installation of approximately 1,430 linear feet of gravity sewer lines.

5. That Applicant proposes to finance the construction of the Project through (i) the issuance of \$1,094,143 loan from the Kentucky Infrastructure Authority; (ii) a grant from USDA, Rural Development ("RD") in the amount of \$200,000; (iii) a grant from the Appalachian Regional Commission ("ARC") in the amount of \$500,000; (iv) Coal Severance Grants in the aggregate amount of \$1,655,944; and (v) Local Government Economic Development Fund grant in the amount

of \$300,000. Applicant has a commitment from RD to provide the grant as set out in the RD Letter of Conditions filed herewith as an Exhibit.

6. That Applicant does not contemplate having the Project constructed with any deviation from minimum construction standards of this Public Service Commission.

7. That Applicant files herewith the following Exhibits pursuant to 807 KAR 5:069 in support of this Application:

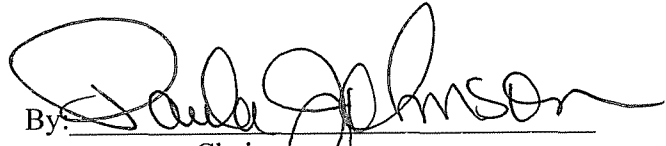
- A. Copy of RD Letter of Conditions (**Exhibit "A"**).
- B. Copy of RD Letter of Concurrence in Contract Award (**Exhibit "B"**).
- C. Copy of Preliminary and Final Engineering Reports.
- D. Certified statement from the Chairperson of Applicant, based upon statements of the Engineers for Applicant (**Exhibit "C"**), concerning the following:
  - (1) The proposed plans and specifications for the Project have been designed to meet the minimum construction and operating requirements set out in 807 KAR 5:066, Section 4(3) and (4); Section 5(1); Sections 6 and 7; Section 8(1) through (3); Section 9(1) and Section 10;
  - (2) All other state approvals or permits have already been obtained;
  - (3) The rates of Applicant shall produce the total revenue requirements set out in the engineering reports; and
  - (4) Setting out the dates when it is anticipated that construction will begin and end.
- E. That Applicant files herewith the loan approval letter from the Kentucky Infrastructure Authority, dated April 16, 2012 (**Exhibit "D"**).

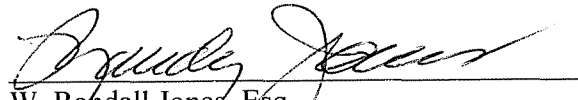
8. That the foregoing constitutes the documents necessary to obtain the approval of the Kentucky Public Service Commission in accordance with Section 278.023 of the Kentucky Revised Statutes and in accordance with the "Filing Requirements" specified in 807 KAR 5:069, Section 1.

WHEREFORE, Applicant, the Southern Water and Sewer District, asks that the Public Service Commission of the Commonwealth of Kentucky grant to Applicant the following:

- a. A Certificate of Public Convenience and Necessity permitting Applicant to construct a waterworks project consisting of extensions, additions, and improvements to the existing waterworks system of Applicant.
- b. An Order approving the financing arrangements made by Applicant set forth in paragraph no. 5 of this Application.

Southern Water and Sewer District

By:   
Chairperson  
Board of Water Commissioners

  
W. Randall Jones, Esq.  
Rubin & Hays  
Counsel for Applicant  
Kentucky Home Trust Building  
450 South Third Street  
Louisville, Kentucky 40202  
(502) 569-7525

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF FLOYD )

The undersigned, Paula Johnson, being duly sworn, deposes and states that she is the Chairperson of the Board of Commissioners of the Southern Water and Sewer District, Applicant, in the above proceedings; that she has read the foregoing Application and has noted the contents thereof; that the same is true of her own knowledge, except as to matters which are therein stated on information or belief, and as to those matters, she believes same to be true.

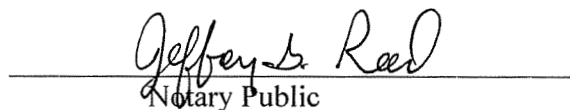
IN TESTIMONY WHEREOF, witness the signature of the undersigned on this April 23, 2012.



Paula Johnson, Chairperson  
Southern Water and Sewer District

Subscribed and sworn to before me by Paula Johnson, Chairperson of the Board of Commissioners of the Southern Water and Sewer District, on this April 23, 2012.

My Commission expires: 7-11-15.



Notary Public

In and for said County and State





**United States Department of Agriculture  
Rural Development  
Kentucky State Office**

September 19, 2011

Paula Johnson, Chairperson  
Southern Water and Sewer District  
PO Box 610  
McDowell, Kentucky 41647

Dear Chairperson Johnson:

This letter establishes conditions which must be understood and agreed to by you before further consideration may be given to the application. The loan and grant will be administered on behalf of the Rural Utilities Service (RUS) by the State and Area office staff of USDA Rural Development. Any changes in project cost, source of funds, scope of services or any other significant changes in the project or applicant must be reported to and approved by USDA Rural Development, by written amendment to this letter. Any changes not approved by Rural Development shall be cause for discontinuing processing of the application. It should also be understood that Rural Development is under no obligation to provide additional funds to meet an overrun in construction costs.

This letter is not to be considered as loan and grant approval or as a representation as to the availability of funds. The docket may be completed on the basis of a RUS loan not to exceed \$200,000; a RUS grant not to exceed \$200,000; an Appalachian Regional Commission (ARC) grant in the amount of \$500,000; a Kentucky Infrastructure Authority Grant (KIA) in the amount of \$255,000; a Kentucky Infrastructure Authority (KIA) 1% 20 year loan in the amount of \$595,000; Coal Severance Fund grants in the cumulative amount of \$1,655,944; and a LGEDF grant in the amount of \$300,000.

If Rural Development makes the loan, the interest rate will be the lower of the rate in effect at the time of loan approval or the rate in effect at the time of loan closing, unless the applicant otherwise chooses. The loan will be considered approved on the date a signed copy of Form RD 1940-1, "Request for Obligation of Funds," is mailed to you.

Please complete and return the attached Form RD 1942-46, "Letter of Intent to Meet Conditions," if you desire that further consideration be given to your application.

The "Letter of Intent to Meet Conditions" must be executed within three weeks from the date of this letter or it becomes invalid unless a time extension is granted by Rural Development.

If the conditions set forth in this letter are not met within 210 days from the date hereof, Rural Development reserves the right to discontinue the processing of the application.

In signing Form RD 1942-46, "Letter of Intent to Meet Conditions," you are agreeing to complete the following as expeditiously as possible:

771 Corporate Drive • Suite 200 • Lexington, KY 40503  
Phone: (859) 224-7336 • Fax: (859) 224-7444 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

Committed to the future of rural communities.

"USDA is an equal opportunity provider, employer and lender."  
To file a complaint of discrimination write USDA, Director, Office of Civil Rights,  
1400 Independence Avenue, SW, Washington, DC 20250-9410  
or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).



1. Number of Users and Their Contribution:

There shall be 7,347 water users and 350 sewer users, of which 195 are existing users and 155 are new users. The Area Director will review and authenticate the number of users prior to advertising for construction bids.

2. Grant Agreement:

Attached is a copy of RUS Bulletin 1780-12, "Water and Waste System Grant Agreement," for your review. You will be required to execute a completed form at the time of grant closing.

3. Drug-Free Work Place:

Prior to grant closing, the District will be required to execute Form AD-1049, "Certification Regarding Drug-Free Workplace Requirements (Grants) Alternative I - For Grantees Other Than Individuals."

4. Repayment Period:

The loan will be scheduled for repayment over a period not to exceed 40 years from the date of the Bond. Principal payment will not be deferred for a period in excess of two years from the date of the Bond. Payments will be in accordance with applicable KRS, which requires interest to be paid semi-annually (January 1<sup>st</sup> and July 1<sup>st</sup>) and principal will be due on or before the first of January. Rural Development may require the District to adopt a supplemental payment agreement providing for monthly payments of principal and interest so long as the bond is held or insured by RUS. Monthly payments will be approximate amortized installments.

5. Recommended Repayment Method:

Payments on this loan shall be made using the Preauthorized Debit (PAD) payment method. This procedure eliminates the need for paper checks and ensures timely receipt of RD loan payments. To initiate PAD payments, Form RD 3550-28, "Authorization Agreement for Preauthorized Payments," should be signed by the District to authorize the electronic withdrawal of funds from your designated bank account on the exact installment payment due date. The Area Director will furnish the necessary forms and further guidance on the PAD procedure.

6. Reserve Accounts:

Reserves must be properly budgeted to maintain the financial viability of any operation. Reserves are important to fund unanticipated emergency maintenance, pay for repairs, and assist with debt service should the need arise.

The District will be required to deposit \$70 per month into a "Funded Debt Reserve Account" until the account reaches \$8,400. The deposits are to be resumed any time the account falls below the \$8,400.

The required monthly deposits to the Reserve Account and required Reserve Account levels are in addition to the requirements of the District's prior bond resolutions.

The monthly deposits to the Reserve Account are required to commence with the first month of the first full fiscal year after the facility becomes operational.

The District also needs to fund an account for short-lived assets by depositing a sum of \$300 monthly into the account. The funds in the short-lived asset account may be used by the District as needed to replace or add short-lived assets in the District's sewer system. This short-lived asset reserve amount replaces any previous short-lived assets requirements previously set with any prior RUS loan.

7. Security Requirements:

A combined pledge of gross water and sewer revenue will be provided in the Bond Resolution. Bonds shall rank on a parity with existing bonds, if possible.

If this is not possible, the bond will be subordinate and junior to the existing bonds, in which case the District will be required to abrogate its right to issue additional bonds ranking on a parity with the existing bonds, so long as any unpaid indebtedness remains on this bond issue.

8. Land Rights and Real Property:

The District will be required to furnish satisfactory title, easements, etc., necessary to install, maintain and operate the facility to serve the intended users. The pipelines will be on private rights-of-way where feasible. Easements and options are to be secured prior to advertising for construction bids.

9. Organization:

The District will be legally organized under applicable KRS which will permit them to perform this service, borrow and repay money.

10. Business Operations:

The District will be required to operate the system under a well-established set of resolutions, rules and regulations. A budget must be established annually and adopted by the District after review by Rural Development. At no later than loan pre-closing, the District will be required to furnish a prior approved management plan to include, as a minimum, provisions for management, maintenance, meter reading, miscellaneous services, billing, collecting, delayed payment penalties, disconnect/reconnect fees, bookkeeping, making and delivering required reports and audits.

11. Accounts, Records and Audits:

The District will be required to maintain adequate records and accounts and submit annual budgets and year-end reports (annual audits)/statistical and financial reports, annually, in accordance with subsection 1780.47 of RUS Instruction 1780.

The enclosed audit booklet will be used as a guide for preparation of audits. The District shall be required to submit a copy of its audit agreement for review and concurrence by Rural Development prior to pre-closing the loan.

The District will be required to establish and maintain separate accounts for each system. Annual audits, budgets, and reports will be submitted to Rural Development showing separate accounts.

12. Accomplish Audits for Years in Which Federal Financial Assistance is Received:

The District will accomplish audits in accordance with OMB Circular A-133, during the years in which federal funds are received. The District will provide copies of the audits to the Area Office and the appropriate Federal cognizant agency as designated by OMB Circular A-133.

13. Insurance and Bonding:

The following insurance and bonding will be required:

- A. Adequate Liability and Property Damage Insurance including vehicular coverage, if applicable, must be obtained and maintained by the District. The District should obtain amounts of coverage as recommended by its attorney, consulting engineer and/or insurance provider.
- B. Worker's Compensation - The District will carry worker's compensation insurance for employees in accordance with applicable state laws.
- C. Fidelity Bond - The District will provide Fidelity Bond Coverage for all persons who have access to funds. Coverage may be provided either for all individual positions or persons, or through "blanket" coverage providing protection for all appropriate employees and/or officials. The amount of coverage required for all RUS loans is \$150,000.
- D. Real Property Insurance - The District will obtain and maintain adequate fire and extended coverage on all structures including major items of equipment or machinery located in the structures. The amounts of coverage should be based on recommendations obtained by the District from its attorney, consulting engineer and/or insurance provider. Subsurface lift stations do not have to be covered except for the value of electrical and pumping equipment therein.
- E. Flood Insurance - The District will obtain and maintain adequate coverage on any facilities located in a special flood and mudslide prone areas.

14. Planning and Performing Development:

- A. The engineer should not be authorized to commence work on final plans and specifications until a determination has been made that the project can be planned and constructed within the estimated cost shown in paragraph "24" of this letter.

The engineer may then proceed to develop final plans and specifications to be completed no later than 180 days from this date, and prepare bid documents. The Area Director is prepared to furnish the necessary guide to follow so as to keep the project plans and documents within our guidelines and requirements. The project should not be advertised for construction bids until all easements and enforceable options have been obtained, and total funds are committed or available for the project.

B. The following documents will be submitted to Rural Development for review and must be concurred in by Rural Development prior to advertisement for construction bids:

1. Final plans, specifications and bid documents.
2. Applicant's letter on efforts to encourage small business and minority-owned business participation.
3. Legal Service Agreements.
4. Engineering Agreements.

Revision in these documents will be subject to Rural Development concurrence. Any agreements, contracts, etc. not reviewed and approved by Rural Development will not be eligible for payment from project funds or revenues from facilities financed by this Agency.

Prior to receipt of an authorization to advertise for construction bids, the District will obtain advance clearance from Bond Counsel regarding compliance with KRS 424 pertaining to publishing of the advertisement for construction bids in local newspapers and the period of time the notice is required to be published.

15. Civil Rights & Equal Opportunity:

You should be aware of and will be required to comply with other federal statute requirements including but not limited to:

A. Section 504 of the Rehabilitation Act of 1973:

Under Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), no handicapped individual in the United States shall, solely by reason of their handicap, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Rural Development financial assistance.

B. Civil Rights Act of 1964:

All borrowers are subject to, and facilities must be operated in accordance with, Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d *et seq.*) and Subpart E of Part 1901 of this Title, particularly as it relates to conducting and reporting of compliance reviews. Instruments of conveyance for loans and/or grants subject to the Act must contain the covenant required by paragraph 1901.202(e) of this Title.

C. The Americans with Disabilities Act (ADA) of 1990:

This Act (42 U.S.C. 12101 *et seq.*) prohibits discrimination on the basis of disability in employment, state and local government services, public transportation, public accommodations, facilities, and telecommunications. Title II of the Act applies to facilities operated by state and local public entities that provide services, programs, and activities. Title III of the Act applies to facilities owned, leased, or operated by private entities that accommodate the public.

D. Age Discrimination Act of 1975:

This Act (42 U.S.C. 6101 *et seq.*) provides that no person in the United States shall, on the basis of age, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance.

Rural Development financial programs must be extended without regard to race, color, religion, sex, national origin, marital status, age, or physical or mental handicap.

16. Closing Instructions:

The Office of General Counsel, our Regional Attorney, will be required to write closing instructions in connection with this loan. Conditions listed therein must be met by the District.

17. Compliance with Special Laws and Regulations:

The District will be required to conform to any and all state and local laws and regulations affecting this type project.

18. Treatment Plant and System Operator:

The District is reminded that the treatment plant and system operator must have an Operator's Certificate issued by the State.

19. Prior to Pre-Closing the Loan, the District Will Be Required to Adopt:

- A. Form RUS Bulletin 1780-27, "Loan Resolution (Public Bodies)."
- B. Form RD 400-1, "Equal Opportunity Agreement."
- C. Form RD 400-4, "Assurance Agreement."
- D. Form AD-1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primary Covered Transaction."
- E. Form RD 1910-11, "Applicant Certification Federal Collection Policies for Consumer or Commercial Debts."

F. RD Instruction 1940-Q, Exhibit A-1, "Certification for Contracts, Grants and Loans."

G. RUS Bulletin 1780-22, "Eligibility Certification."

20. Refinancing and Graduation Requirements:

The District is reminded that if at any time it shall appear to the Government that the District is able to refinance the amount of the RUS indebtedness then outstanding, in whole or in part, by obtaining a loan from commercial sources at reasonable rates and terms, upon the request of the Government, the District will apply for and accept such loan in sufficient amount to repay the Government.

21. Commercial Interim Financing:

The District will be required to use commercial interim financing for the project during construction for the RUS loan portion of the financing, if available at reasonable rates and terms.

Before the loan is closed, the District will be required to provide Rural Development with statements from the contractor, engineer and attorneys that they have been paid to date in accordance with their contract or other agreements and, in the case of the contractor, that he has paid his suppliers and sub-contractors.

22. Disbursement of Project Funds:

A construction account for the purpose of disbursement of project funds (RUS) will be established by the District prior to start of construction. The position of officials entrusted with the receipt and disbursement of RUS project funds will be covered by a "Fidelity Bond," with USDA Rural Development as Co-Obligee, in the amount of construction funds on hand at any one time during the construction phase.

For each "construction account" as established, if the amount of RUS loan and grant funds plus any applicant contributions or funds from other sources to be deposited into the account are expected to exceed \$250,000 at any time, the financial institution will secure the amount in excess of \$250,000 by pledging collateral with the Federal Reserve Bank in an amount not less than the excess in accordance with 7 CFR, 1902.7(a).

During construction, the District shall disburse project funds in a manner consistent with subsection 1780.76 (e) of RUS Instruction 1780. Form RD 1924-18, "Partial Payment Estimate," or similar form approved by Rural Development, shall be used for the purpose of documenting periodic construction estimates, and shall be submitted to Rural Development for review and acceptance. Prior to disbursement of funds by the District, the Board of Directors shall review and approve each payment estimate. All bills and vouchers must be approved by Rural Development prior to payment by the District.

Form RD 440-11, "Estimate of Funds Needed for 30-Day Period Commencing \_\_\_\_\_," will be prepared by the District and submitted to Rural Development in order that a periodic advance of federal cash may be requested.

Borrowers receiving federal loan and/or grant funds by EFT will have funds directly deposited to a specified account at a financial institution with funds being available to the recipient on the date of payment. The borrower should complete Form SF-3881, "Electronic Funds Transfer Payment Enrollment Form," for each account where funds will be electronically received. The completed form(s) must be received by Rural Development at least thirty (30) days prior to the first advance of funds.

Monthly audits of the District's construction account records shall be made by Rural Development.

23. Disbursement of Grant Funds:

The RUS funds will be advanced as they are needed in the amount(s) necessary to cover the RUS proportionate share of obligations due and payable by the District. Grant funds, upon receipt, must be deposited in an interest bearing account in accordance with 7 CFR part 3016 (as applicable). Interest earned on grant funds in excess of \$100 (as applicable) per year will be submitted to RUS at least quarterly.

24. Cost of Facility:

Breakdown of Costs:

Development	\$ 2,848,450
Land and Rights	45,000
Legal and Administrative	90,863
Engineering	422,505
Interest	39,113
Contingencies	<u>260,013</u>
TOTAL	\$ 3,705,944

Financing:

RUS Loan	\$ 200,000
RUS Grant	200,000
ARC Grant	500,000
KIA Grant	255,000
KIA Forgivable Loan	595,000
Coal Severance Grants	1,655,944
LGEDF Grants	<u>300,000</u>
TOTAL	\$ 3,705,944

25. Commitment of Other Project Funds:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the ARC grant in the amount of \$500,000, for the KIA grant in the amount of \$255,000, for the KIA forgivable loan in the amount of \$595,000, for the Coal Severance Grants in the amount of \$1,655,944, and for the LGEDF grant in the amount of \$300,000.

26. Use of Remaining Project Funds:

After providing for all authorized costs, any remaining project funds will be considered to be RUS/ARC/KIA/Coal Severance/LGEDF grant funds and refunded in proportion to participation in the project. If the amount of unused project funds exceeds the grants, that part would be RUS loan funds.

27. Proposed Operating Budget:

You will be required to submit to Rural Development a copy of your proposed annual operating budget that supports the proposed loan repayment prior to this agency giving you written authorization to proceed with the bidding phase. The operating budget should be based on a typical year cash flow, subject to completion of this project in the first full year of operation. Form RD 442-7, "Operating Budget," or similar form may be utilized for this purpose.

28. Rates and Charges:

Rates and charges for facilities and services rendered by the District must be at least adequate to meet cost of maintaining, repairing and operating the water and sewer system and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

Water rates will be at least:

First	2,000	gallons @ \$	23.00. - Minimum Bill.
All Over	2,000	gallons @ \$	9.16. - per 1,000 gallons.

Wholesale water rates will be in accordance with existing contracts and revisions thereto.

Sewer rates will be at least:

First	2,000	gallons @ \$	25.50. - Minimum Bill.
All Over	2,000	gallons @ \$	10.00. - per 1,000 gallons.

29. Compliance with the Bioterrorism Act:

Prior to pre-closing the loan, the District will provide a certification they have completed a Vulnerability Assessment (VA) and prepared an emergency response plan (ERP) as required by the Safe Drinking Water Act (SDWA).

30. Floodplain Construction:

The District will be required to pass and adopt a Resolution or amend its By-Laws whereby the District will deny any sewer service to any future customer wishing to build on or develop property located within a designated floodplain. If a customer or developer requests service for construction in a designated floodplain, the customer or developer must provide evidence and a justification for approval by the District and Rural Development officials that there are no other



alternatives to construction or development within the designated floodplain. The community must be a participant in the National Flood Insurance Program (NFIP) and the customer or developer must obtain the required permits prior to the tap on restrictions being waived.

31. Division of Water (DOW) Health & Sanitary Certification:

The Median Household Income (MHI) for the District's service area qualifies this project for the poverty interest rate. A certification from the Division of Water stating this project will remove a health or sanitary problem will be required. This certification must be obtained prior to loan pre-closing.

32. Mitigation Measures:

- A. The project shall be in compliance with all requirements noted in the Governor's Office for Local Development letter dated September 24, 2010, from Ms. Lee Nalley.
- B. The design and construction shall be in compliance with the requirements of the U.S. Fish and Wildlife Service as requested.
- C. The line design and construction shall be accomplished in a way that will leave flood plains and farmland without effect after construction is complete. The Army Corps of Engineers Nationwide Permit No. 12 applies to all floodplain and wetland utility line construction.
- D. Any excavation by Contractor that uncovers a historical or archaeological artifact shall be immediately reported to Owner and a representative of Agency. Construction shall be temporarily halted pending the notification process and further directions issued by Agency after consultation with the State Historic Preservation Officer (SHPO).
- E. The design and construction shall be in compliance with all local, state and federal environmental statutes, regulations and executive orders applicable to the project.
- F. Best Management Practices shall be incorporated into the project design, construction, and maintenance.

33. Final Approval Conditions:

Final approval of this assistance will depend on your willingness, with the assistance of all your co-workers, to meet the conditions of this letter in an orderly and systematic manner. Then too, final approval will depend on funds being available.

If you desire to proceed with your application, the Area Director will allot a reasonable portion of time to provide guidance in application processing.

Sincerely,

  
THOMAS G. FERN  
State Director

Enclosures

cc: Area Director - Morehead, Kentucky  
Big Sandy ADD - Prestonsburg, Kentucky  
Rubin & Hays - Louisville, Kentucky  
Ralph Stevens - Prestonsburg, Kentucky  
Summit Engineering - Lexington, Kentucky



United States Department of Agriculture  
Rural Development  
Kentucky State Office

April 4, 2012

Paula Johnson, Chairperson  
Southern Water and Sewer District  
P O Box 610  
McDowell, Kentucky 41647

Re: Letter of Conditions Dated September 19, 2011

Dear Chairperson Johnson:

This letter shall serve as Amendment No. 1 to the Letter of Conditions dated September 19, 2011. The purpose of this amendment is to revise the funding, delete the user rates as KIA is lender, and other additional changes.

The Second Paragraph on Page 1 is revised to read as follows:

“ This letter is not to be considered as loan and/or grant approval or as a representation as to the availability of funds. The docket may be completed on the basis of a RUS grant not to exceed \$200,000, an Appalachian Regional Commission (ARC) grant of \$500,000, a Kentucky Infrastructure Authority (KIA) 1% 20 year loan in the amount of \$1,094,143, a Coal Severance Fund grants in the cumulative amount of \$1,655,944, and a LGEDF grant in the amount of \$300,000. ”

Paragraphs and sub-paragraphs “4, 5, 6, and 7” are deleted.

Paragraph numbered “13” is revised to read as follows:

“13. Insurance and Bonding:

The following insurance and bonding will be required:

- A. Adequate Liability and Property Damage Insurance including vehicular coverage, if applicable, must be obtained and maintained by the District. The District should obtain amounts of coverage as recommended by its attorney, consulting engineer and/or insurance provider.
- B. Worker's Compensation - The District will carry worker's compensation insurance for employees in accordance with applicable state laws.

771 Corporate Drive • Suite 200 • Lexington, KY 40503  
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1400 Independence Avenue, SW, Washington, DC 20250-9410  
or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).

- C. Real Property Insurance - The District will obtain and maintain adequate fire and extended coverage on all structures including major items of equipment or machinery located in the structures. The amounts of coverage should be based on recommendations obtained by the District from its attorney, consulting engineer and/or insurance provider. Subsurface lift stations do not have to be covered except for the value of electrical and pumping equipment therein.
- D. Flood Insurance - The District will obtain and maintain adequate coverage on any facilities located in a special flood and mudslide prone areas.

Paragraph numbered "19" is revised to read as follows:

"19. Prior to Closing the Grant, the District Will Be Required to Adopt:

- A. Form RD 400-1, "Equal Opportunity Agreement."
- B. Form RD 400-4, "Assurance Agreement."
- C. Form AD-1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primary Covered Transaction."
- D. Form RD 1910-11, "Applicant Certification Federal Collection Policies for Consumer or Commercial Debts."
- E. RD Instruction 1940-Q, Exhibit A-1, "Certification for Contracts, Grants and Loans."
- F. RUS Bulletin 1780-22, "Eligibility Certification."

Paragraph numbered "24" is revised to read as follows:

" 24. Cost of Facility:

Breakdown of Costs:

Development	\$ 3,105,156
Land and Rights	8,250
Legal and Administrative	84,585
Engineering	383,729
Interest	13,109
Contingencies	<u>155,258</u>
TOTAL	\$ 3,750,087

Financing:

RUS Grant	\$	200,000	
ARC Grant		500,000	
KIA Loan		1,094,143	
Coal Severance Grants		1,655,944	
LGEDF Grants		<u>300,000</u>	
TOTAL	\$	3,750,087	”

Paragraph numbered “25” is revised to read as follows:

“ 25. Commitment of Other Project Funds:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the ARC grant in the amount of \$500,000, for the KIA loan in the amount of \$1,094,143, and for the Coal Severance grant in the amount of \$1,655,944, and for the LGEDF grant in the amount of \$300,000. ”

Paragraph numbered “26” is revised to read as follows:

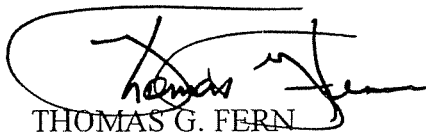
“ 26. Use of Remaining Project Funds:

After providing for all authorized costs, any remaining project funds will be considered to be RUS/ARC/KIA/Coal Severance/LGEDF funds and refunded in proportion to participation in the project. ”

Paragraphs “16, 20, 21, and 28” are deleted.

All other provisions of the referenced Letter of Conditions remain in full force and unchanged.

Sincerely,



THOMAS G. FERN  
State Director

- cc: Area Director - Morehead, Kentucky
- Big Sandy ADD - Prestonsburg, Kentucky
- Rubin & Hays - Louisville, Kentucky
- Ralph Stevens - Prestonsburg, Kentucky
- Summitt Engineering - Lexington, Kentucky





**United States Department of Agriculture  
Rural Development  
Kentucky State Office**

April 23, 2012

**SUBJECT:** Southern Water and Sewer  
Harold Sewer Project  
Contract Award Concurrence

**TO:** Area Director  
Morehead, Kentucky

Based on the bids received and the recommendation of the consulting engineer, Rural Development concurs in the award of subject contract to the low bidder on contract 1, H2O Construction Company, Inc., in the amount of \$1,790,000.00, and the low bidder on contract 2, Drains Unlimited, Inc., in the amount of \$1,561,692.25.00, with a change order being executed to bring the contract amount within available funds of \$1,315,156.00.

If you have any questions, please contact Julie Anderson, State Engineer, at (859) 224-7348.

  
THOMAS G. FERN  
State Director  
Rural Development

**cc:** Summit Engineering  
Lexington, Kentucky

Randy Jones  
Louisville, Kentucky

771 Corporate Drive • Suite 200 • Lexington, KY 40503  
Phone: (859) 224-7300 • Fax: (859) 224-7425 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

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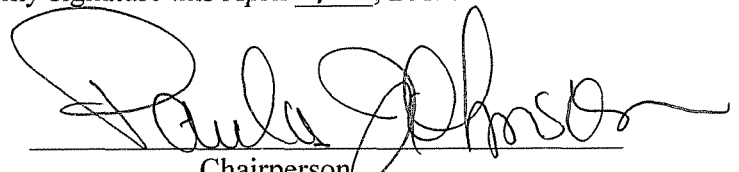
**CERTIFICATE OF CHAIRPERSON OF  
SOUTHERN WATER AND SEWER DISTRICT,  
AS TO STATEMENT REQUIRED BY SECTION 1(5) OF 807 KAR 5:069**

I, Paula Johnson, hereby certify that I am the duly qualified and acting Chairperson of the Southern Water and Sewer District of Floyd and Knott Counties, Kentucky, and that said District is in the process of arranging to finance the construction of extensions, additions and improvements to the existing waterworks system of the District (the "Project"), in cooperation with Summit Engineering, Inc., Lexington, Kentucky, the Engineers for the District (the "Engineers").

Based on information furnished to me by said Engineers for the District, I hereby certify as follows:

1. That the proposed plans and specifications for the Project have been designed to meet the minimum construction and operating requirements set out in 807 KAR 5:066 Section 4(3) and (4); Section 5(1); Sections 6 and 7; Section 8(1) through (3); Section 9(1) and Section 10.
2. That all other state approvals and/or permits have already been obtained.
3. That the rates of the District are contemplated to produce total revenue requirements set out in the Engineering Reports prepared by such Engineers and filed with the Public Service Commission.
4. That it is now contemplated that construction of the Project will begin on or about June 4, 2012, and will end on or about April 4, 2013.

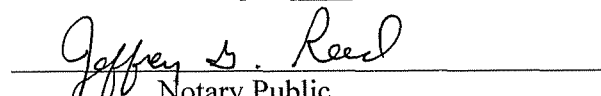
IN TESTIMONY WHEREOF, witness my signature this April 23, 2012.



Chairperson  
Southern Water and Sewer District

STATE OF KENTUCKY    )  
                                  ) SS  
COUNTY OF FLOYD    )

Subscribed and sworn to before me by Paula Johnson, Chairperson of the Board of Commissioners of the Southern Water and Sewer District, on this April 23, 2012.

  
Notary Public  
In and For Said State and County

my Commission expires:    7-11-15





**Steven L. Beshear**  
Governor

**KENTUCKY INFRASTRUCTURE AUTHORITY**

1024 Capital Center Drive, Suite 340  
Frankfort, Kentucky 40601  
Phone (502) 573-0260  
Fax (502) 573-0157  
<http://kia.ky.gov>

**John E. Covington III**  
Executive Director

April 16, 2012

Ms. Paula Johnson, Chairperson  
Southern Water and Sewer District  
P.O. Box 610, 245 KY Route 680  
McDowell, KY 41647

**KENTUCKY INFRASTRUCTURE AUTHORITY  
FEDERALLY ASSISTED WASTEWATER REVOLVING LOAN FUND  
CONDITIONAL COMMITMENT LETTER (A11-16)  
INCREASE**

Dear Chairperson Johnson:

The Kentucky Infrastructure Authority ("the Authority") commends your efforts to improve public service facilities in your community. Your request to the Authority for a \$244,143 increase to your loan was approved on April 12, 2012, for the Harold Sewer Project / PRIDE on the River subject to the conditions stated below. The amended total cost of the project shall not exceed \$3,7550,087 of which the Authority loan shall provide \$1,094,143 of the funding. Other anticipated funding for the project is reflected in Attachment A. The final loan amount will be equal to the Authority's portion of estimated project cost applied to the actual project cost. Attachment A incorporated herein by reference fully describes the project.

An Assistance Agreement will be executed between the Authority and the Southern Water and Sewer District upon satisfactory performance of the conditions set forth in this letter. A period of twelve months from the date of this letter (4/15/2013) will be allowed for you to meet the conditions set forth in this letter and enter into an Assistance Agreement. A one-time extension of up to six months may be granted for applicants that experience extenuating circumstances. Funds will be available for disbursement only after execution of the Assistance Agreement.

The Assistance Agreement and this commitment shall be subject, but not limited to, the following terms:

1. The Authority project loan shall not exceed \$1,094,143.

2. The loan shall contain principal forgiveness in the amount of 30%. Actual amortized loan and forgiveness amounts will be based on actual project costs drawn from the Authority.
3. The loan shall bear interest at the rate of 1% per annum commencing with the first draw of funds.
4. The loan shall be repaid over a period not to exceed 20 years from the date the loan is closed.
5. Interest shall be payable on the unforgiven amount of actual funds received. The first payment shall be due on June 1 or December 1 immediately succeeding the date of the initial draw of funds, provided that if such June 1 or December 1 shall be less than three months since the date of the initial draw of funds, then the first interest payment date shall be the June 1 or December 1 which is at least six months from the date of the initial draw of funds. Interest payments will be due each six months thereafter until the loan is repaid.
6. Full principal payments will commence on the appropriate June 1 or December 1 within twelve months from initiation of operation. Full payments will be due each six months thereafter until the loan is repaid.
7. A loan servicing fee of 0.20% of the annual outstanding loan balance shall be payable to the Authority as a part of each interest payment.
8. Loan funds will be disbursed after execution of the Assistance Agreement as project costs are incurred.
9. The Authority loan funds must be expended within six months of the official date of initiation of operation.
10. Fund "A" loan funds are considered to be federal funds. OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations, requires that all recipients and subrecipients **expending \$500,000 or more in a year in federal awards must have a single or program-specific audit conducted for that year** in accordance with the Circular. If the federal amount expended plus all other federal funds expended exceeds the threshold, you are required to arrange for an A-133 audit to be performed by an independent, licensed CPA, or in special cases, the Auditor of Public Accounts of the Commonwealth of Kentucky. The Authority requires an annual audit to be preformed for the life of the loan.

The following is a list of the standard conditions to be satisfied prior to execution of the Assistance Agreement or incorporated in the Assistance Agreement. Any required documentation must be submitted to the party designated.

1. The Authority to Award (bid) package must be submitted to the Division of Water for approval within 14 days of bid opening.
2. The Assistance Agreement must be executed within six (6) months from bid opening.
3. The Borrower must agree to expend all Authority loan funds within six months of the date of initiation of operation.
4. Documentation of final funding commitments from all parties other than the Authority as reflected in the credit analysis shall be provided prior to preparation of the Assistance Agreement and disbursement of the loan monies. Rejections of any anticipated project funding shall be immediately reported and may cause this loan to be subject to further consideration.
5. The loan must undergo review by the Capital Projects and Bond Oversight Committee of the Kentucky Legislature prior to the state's execution of the Assistance Agreement. The committee meets monthly on the third Tuesday. At this time we know of no further submission required for their review; however, they may request information as needed.
6. Any required adjustment in utility service rates shall be adopted by ordinance, municipal order or resolution by the appropriate governing body of the Borrower. Public hearings as required by law shall be held prior to the adoption of the service rate ordinance, order, or resolution. Any required approvals by the Kentucky Public Service Commission shall be obtained.
7. All easements or purchases of land shall be completed prior to commencement of construction. Certification of all land or easement acquisitions shall be provided to the Division of Water.
8. The Borrower must complete and return to the Authority the attached "Authorization For Electronic Deposit of Vendor Payment" Form.
9. The Authority to Award Package documentation shall be submitted to and approved by DOW.

Chairperson Johnson  
April 16, 2012  
Page 4

10. An environmental review shall be conducted by the Division of Water for all construction projects receiving CWSRF funds, within the term of this binding commitment and prior to project bid.
11. Technical plans and specifications and a complete CWSRF specifications checklist shall be approved by the Division of Water prior to project bid.
12. A clear site certificate shall be obtained and DOW representatives shall be notified for attendance of the pre-construction conference.
13. Project changes or additions shall require a complete environmental and change order review before they can be included in the CWSRF loan project.

The following is a list of additional conditions to be satisfied prior to execution of the Assistance Agreement or incorporated in the Assistance Agreement. Any required documentation must be submitted to the party designated.

1. The Borrower shall require all contractors to pay wages pursuant to applicable prevailing wage rates (federal or state) for all work relating to the subject Project. The Borrower shall, if applicable, comply with all Davis Bacon related monitoring and reporting.
2. The project shall comply with the reporting requirements of the Transparency Act, and shall complete the attached Transparency Act Reporting Information Form and provide to the Authority no later than 30 days after the KIA Board approval date of your loan.
3. If the project has a "Green Reserve" component, the Borrower must submit a Business Case, if required.

Any special conditions listed below and/or stated in Attachment A must be resolved.

Please inform the Authority of any changes in your financing plan as soon as possible. We wish you every success for this project which will benefit both your community and the Commonwealth as a whole.

Sincerely,



Sandy Williams  
Financial Analyst

Chairperson Johnson  
April 16, 2012  
Page 5

Attachments

cc: Brenda Powers, Big Sandy Area Development District  
Kevin Howard, Summit Engineering  
Division of Water  
Dirk Bedarff, Peck, Shaffer & Williams LLP  
State and Local Debt Office, DLG  
Borrower File - Southern Water and Sewer District - A11-16 INCREASE

Please sign and return a copy of this letter indicating your acceptance of this commitment and its terms. Also attach the completed "Authorization For Electronic Deposit of Vendor Payment" Form.

---

Accepted

---

Date

**AUTHORIZATION FOR ELECTRONIC DEPOSIT  
OF BORROWER PAYMENT  
KENTUCKY INFRASTRUCTURE AUTHORITY  
(FUND A11-16 INCREASE)**

**Borrower Information:**

Name: \_\_\_\_\_

Address: \_\_\_\_\_

City: \_\_\_\_\_ State: KY Zip: \_\_\_\_\_

Telephone: \_\_\_\_\_ Contact: \_\_\_\_\_

Federal I.D. # \_\_\_\_\_

**Financial Institution Information:**

Bank Name: \_\_\_\_\_

Branch: \_\_\_\_\_ Phone No: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_

Transit / ABA No.: \_\_\_\_\_

Account Name: \_\_\_\_\_

Account Number: \_\_\_\_\_

I, the undersigned, authorize payments directly to the account indicated above and to correct any errors which may occur from the transactions. I also authorize the Financial Institution to post these transactions to that account.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Name Printed: \_\_\_\_\_ Job Title: \_\_\_\_\_

Please return completed form to:

**Kentucky Infrastructure Authority  
1024 Capital Center Drive, Suite 340  
Frankfort, KY 40601  
phone: 502-573-0260  
fax: 502-573-0157**



**ATTACHMENT A**

**Southern Water and Sewer District  
A11-16 INCREASE**

<b>EXECUTIVE SUMMARY</b> <b>KENTUCKY INFRASTRUCTURE AUTHORITY</b> <b>FUND A, FEDERALLY ASSISTED WASTEWATER</b> <b>REVOLVING LOAN FUND</b>	Reviewer: Kasi White Date: April 12, 2012 KIA Loan Number: <b>A11-16 (Increase)</b> WRIS Number: <b>SX21195121, SX21071218</b> HUC Code: 05070203030
--	--

<b>BORROWER:</b>	<b>SOUTHERN WATER AND SEWER DISTRICT</b>
	<b>FLOYD COUNTY</b>

**BRIEF DESCRIPTION:**

Due to higher than estimated costs upon bid opening, the SWSD is requesting a \$244,143 increase to its previously approved \$850,000 loan for the Harold Sewer / PRIDE on the River Project. This project is an effort to provide public wastewater service to southern Floyd County along the US 23 corridor. There are currently no public wastewater collection or treatment facilities in the area. Large water users operate their own package wastewater treatment plants but most other residences and small business utilize septic systems and straight pipe discharges.

Phase 1 of the project involves the construction of an 100,000 GPD expandable regional wastewater treatment plant and installation of approximately 20,000 feet of trunk force. Phase 2 will involve the installation of 30,000 feet of force mains and approximately 150 grinder pumping units. This will provide service to the five largest water users along with other small businesses and approximately 150 residences in the service area. The increase costs are mainly attributed to the WWTP site which is a previously disturbed mine land.

PROJECT FINANCING:		PROJECT BUDGET	
Coal Severance (HB608, CPBOC 10/19/10)	\$ 1,000,000	Administrative Expenses	\$ 55,785
Coal Severance (HB380, CPBOC 11/20/07)	600,000	Legal Expenses	21,300
RD Grant	200,000	Land, Easements	8,250
ARC Grant	500,000	Engineering Fees	391,229
KIA SRF	1,094,143	Construction	3,105,156
LGEDF	300,000	Contingency	155,258
Coal Severance	55,944	Other	13,109
<b>TOTAL</b>	<b>\$ 3,750,087</b>	<b>TOTAL</b>	<b>\$ 3,750,087</b>

<b>REPAYMENT</b>			
Rate	1.00%	Est. Annual Payment	\$ 43,879
Term	20 years	1st Payment	6 Mo. after first draw

<b>PROFESSIONAL SERVICES</b>	Engineer	Summit Engineering
	Bond Counsel	Peck, Shaffer, & Williams

<b>PROJECT SCHEDULE</b>	Bid Opening:	March, 2012
	Construction Start:	June, 2012
	Construction Stop:	November, 2012

<b>DEBT PER CUSTOMER</b>	Existing:	\$ 927
	Proposed:	\$ 832

**OTHER DEBT** See Attached

**OTHER STATE-FUNDED PROJECTS LAST 5 YRS** See Attached

<b>RESIDENTIAL RATES</b>		<u>Users</u>		<u>Avg. Bill</u>	
	Current	195	\$	39.51	(for 4,000 gallons)
	Additional	135	\$	45.50	(for 4,000 gallons)

**REGIONAL COORDINATION** This project is consistent with regional planning recommendations.

CASHFLOW	Cash Available for		Income after Debt		Coverage Ratio
	Debt Service	Debt Service	Service	Service	
Audited 2006	506,810	520,578	(13,768)	0.97	
Audited 2007	838,411	557,930	280,481	1.50	
Audited 2008	984,150	601,924	382,226	1.64	
Audited 2009	697,175	563,595	133,580	1.24	
Audited 2010	633,939	850,106	(216,167)	0.75	
Projected 2011	487,136	935,945	(448,809)	0.52	
Projected 2012	526,531	514,003	12,528	1.02	
Projected 2013	927,925	508,982	418,943	1.82	
Projected 2014	754,697	495,949	258,748	1.52	
Projected 2015	574,790	494,906	79,884	1.16	

Reviewer: Kasi White  
Date: April 12, 2012  
Loan Number: A11-16 (Increase)

**KENTUCKY INFRASTRUCTURE AUTHORITY  
WASTEWATER REVOLVING LOAN FUND (FUND "A")  
SOUTHERN WATER AND SEWER DISTRICT, FLOYD COUNTY  
PROJECT REVIEW  
SX21195121, SX21071218**

**I. PROJECT DESCRIPTION**

The Southern Water and Sewer District is requesting an increase of \$244,143 to its previously approved Fund A loan in the amount of \$850,000 (August 2011) for the Harold Sewer project. The project is an effort to provide public wastewater service to southern Floyd County along the US 23 corridor. The Harold 201 facilities plan service area extends from Harold to Tom's Creek and includes the areas of Mud Creek, Harold, Coldwater Branch, Betsy Lane, Pike Floyd Hollow, Justell, Stanville, Mare Creek, and Tom's Creek. The ultimate service area includes approximately 1,500 potential customers and consists of residences, small businesses, and various commercial entities. There are currently no public wastewater collection or treatment facilities in the area. Large water users operate their own package wastewater treatment plants but most other residences and small businesses utilize septic systems and straight pipe discharges. The increase costs were mainly attributed to the WWTP site which is a previously disturbed mine land.

The project was planned as two stand alone phases but have been combined to facilitate a more cost effective design, bid and construction process. The initial phase involves the construction of an expandable treatment plant with an initial capacity of 100,000 GPD that will be constructed at Pike-Floyd Hollow and approximately 20,000 linear feet (LF) of force main will be installed along US 23 in the project area incorporating a number of commercial areas. This will provide service to the five largest water users in the area (Betsy Lane High School and Elementary School, a large commercial strip center, Huddle House restaurant, and a car wash). The second component of the project involves the installation of approximately 30,000 LF of pressure force mains and approximately 150 grinder pumping units that will support residential and small business customers (potential 230) in the project area. Upon completion of this component, the plant will operate at approximately 31% of its initial capacity (150 additional customers).

**II. PROJECT BUDGET**

	<u>Total</u>
Administrative Expenses	\$ 55,785
Legal Expenses	21,300
Land, Easements	8,250
Engineering Fees	391,229
Construction	3,105,156
Other (Capitalized Interest)	13,109
Contingency	155,258
<b>Total</b>	<b>\$ 3,750,087</b>

### III. PROJECT FUNDING

	Amount	%
Coal Severance (HB608)	\$ 1,000,000	28%
Coal Severance (HB380)	600,000	16%
RD Grant	200,000	5%
ARC Grant	500,000	13%
KIA SRF (revised)	1,094,000	29%
LGEDF	300,000	8%
Coal Severance	55,944	1%
<b>Total</b>	<b>\$ 3,750,087</b>	<b>100%</b>

### IV. KIA DEBT SERVICE

	ORIGINAL	INCREASE	REVISED
Construction Loan	\$ 850,000	\$ 244,143	\$ 1,094,143
Less: Principal Forgiveness (30%)	255,000	73,243	328,243
Amortized Loan Amount	\$ 595,000	\$ 170,900	\$ 765,900
Interest Rate	1.00%	1.00%	1.00%
Loan Term (Years)	20	20	20
Estimated Annual Debt Service	\$ 32,898	\$ 9,449	\$ 42,347
Administrative Fee (0.20%)	1,190	342	1,532
<b>Total Estimated Annual Debt Service</b>	<b>\$ 34,088</b>	<b>\$ 9,791</b>	<b>\$ 43,879</b>

### V. PROJECT SCHEDULE

Bid Opening	March, 2012
Construction Start	June, 2012
Construction Stop	November, 2012

### VI. CUSTOMER COMPOSITION AND RATE STRUCTURE

#### A) Customers

Category	Current	Proposed	Total
Water	7,357	0	7,357
Sewer	195	135	330
<b>Total</b>	<b>7,552</b>	<b>135</b>	<b>7,687</b>

#### B) Rates

Rates were last increased in 2009. The Water Rates are governed by the Public Service Commission and the current rates are as follows:

	Water	Sewer
Minimum (First 2,000 gallons)	\$ 20.00	\$ 23.65
All Over 2,000 gallons (per 1,000 gal.)	7.00	7.93
Cost for 4,000 gallons	\$ 34.00	\$ 39.51
Affordability Index (Rate/MHI)	1.9%	2.2%

## **VII. DEMOGRAPHICS**

In 2010, the County's population was 41,965 with a Median Household Income (MHI) of \$28,479, or 69% of the State MHI. The median household income for the Commonwealth is \$41,197. Based on median household income, the project will qualify for a 1.0% interest rate.

## **VIII. 2010 CAPITALIZATION GRANT EQUIVALENCIES**

- 1) Green Project Reserve - This project does not qualify for Green Project Reserve (GPR) funding.
- 2) Additional Subsidization – This project qualifies for additional subsidization in the amount of \$328,243.

## **IX. FINANCIAL ANALYSIS (See Exhibit 1)**

Financial information for the Southern Water and Sewer District was obtained from the audited financial statements for the years ended June 30, 2006 through 2010. The District bills and collects garbage fees from its customers and remits them monthly to the Floyd County Fiscal Court. These revenues and expenses are excluded from the discussion below since they are a pass through in the income statement.

### **HISTORICAL**

Water and sewer revenues increased 50% from \$2.4 million in 2006 to \$3.6 million in 2010 due to customer growth and rate increases enacted in 2009. Operating expenses and purchased water cost increased 60% during the same period from \$1.9 million in 2006 to \$3.0 million in 2010. Debt service increased from \$520,000 in 2006 to \$850,106 in 2010 while the debt coverage ratio ranged from a low of .75 in 2010 to a high of 1.64 in 2008.

The balance sheet reflects declining equity each year since 2006. Operating cash has also declined since 2007. At the end of 2010 KIA had three loans with the District totaling \$2.7 million. Required reserves were underfunded by approximately \$166,000. In a summary addendum that was prepared by the District's engineering firm, the current combined deficit on RD and KIA loan reserves is \$278,000.

The District is pursuing water and sewer rate increases of approximately 21.5% and 15.2% (based on 4,000 gallon per month usage), respectively, to mitigate its current operating deficits.

### **PROJECTED**

Projections are based on the following assumptions:

- 1) Water revenues will increase by 20% beginning October 1, 2012 (based on the District's proposed increases).
- 2) Sewer revenues will increase by 15% beginning October 1, 2012 (based on the District's proposed increases).

- 3) Additional revenues from the anticipated 135 customers resulting from the project are included in 2013. Growth in water and sewer customers will be negligible.
- 4) Operating expenses will increase by 4% each year.
- 5) Purchased water cost will increase by 2% each year.
- 6) Replacement reserve funding of \$5,500 will begin in 2014.
- 7) The existing reserve deficits will be replenished over a period of five years beginning in 2012. The current estimated annual amount is \$57,000.
- 8) Debt service of \$43,879 on the proposed KIA loan will begin in 2013 and will increase overall debt service to \$495,949 in 2014.

Debt service coverage is estimated at 1.82 in 2013 when all principal and interest repayments begin for the KIA loan funding the project. Based on the proforma assumptions, the utility shows adequate cash flow to repay the KIA Fund A loan.

#### REPLACEMENT RESERVE

The annual replacement cost is estimated to be \$5,500. This amount should be added to the replacement account each December 1 until the balance reaches \$55,000. The balance should be maintained for the life of the loan.

#### X. DEBT OBLIGATIONS (as of 12/31/10)

<u>Debt Issue</u>	<u>Outstanding</u>	<u>Maturity</u>
KIA Loan B293-01	786,525	2025
KIA Loan B295-01	1,903,978	2028
KIA Loan A04-06	50,167	2025
First Guaranty Bank	131,732	2012
USRD Loan, 2002 Series	2,305,000	2042
USRD Loan (Assumed from Sandy Valley WD)	554,743	2040
USRD Loan, 2005 Series	211,500	2044
First Guaranty Bank	117,691	2017
LOC - First Guaranty Bank	250,000	2012
First Guaranty Bank	63,013	2013
First Guaranty Bank	89,756	2012
USRD Loan, 2010 Series	533,912	2049
<b>TOTAL</b>	<b>\$ 6,998,017</b>	

#### XI. OTHER STATE OR FEDERAL FUNDING IN PAST FIVE YEARS

<u>Project Title</u>	<u>Funding Source</u>	<u>Amount</u>	<u>Type</u>
Harold Area - Sewer Plant and Line Expansion	HB 608	\$1,000,000	Grant
Floyd County Fire Hydrants	HB 608	\$30,000	Grant
Waterline Replacement - Harold to Little Mud	HB 608	\$30,000	Grant
Emergency Flood Relief	FEMA	\$535,237	Grant

**XII. CONTACTS**

**Applicant**

Name Southern Water and Sewer District  
Address P.O. Box 610, 245 KY Route 680  
McDowell, KY 41647  
County Floyd  
Contact Paula Johnson  
Phone 606-377-9296

**Applicant Contact**

Name Big Sandy Area Development District  
Address 110 Resource Court  
Prestonsburg, KY 41653  
Contact Brenda Powers  
Phone 606-886-2374  
Email Brenda.powers@bigsandy.org

**Engineer**

Name Kevin Howard  
Firm Summit Engineering  
Address 120 Prosperous Place, Suite 101  
Lexington, KY 40509  
Phone 859-264-9860, ext 306  
Email khoward@summit-engr.com

**XIII. RECOMMENDATIONS**

KIA staff recommends approval of the loan with the standard conditions and the following special conditions.

1. The district must increase sewer rates by at least 15% to be effective no later than December 1, 2012. This will result in a sewer rate structure as follows:

	<u>2012</u>
Minimum (First 2,000 gallons)	\$25.50
All Over 2,000 gallons (per 1,000 gal.)	10.00
Cost for 4,000 gallons	<u>\$45.50</u>
Affordability Index (Rate/MHI)	2.6%

2. Notice should be provided to KIA in the event that the proposed 20% increase to water rates is not implemented by December 1, 2012.

The original approval required proof of commitments from the Appalachian Regional Commission, Rural Development and Floyd County Fiscal Court. These commitments have been secured.

**SOUTHERN WATER AND SEWER DISTRICT (Dec)  
BALANCE SHEETS**

ASSETS	Audited 2006	Audited 2007	Audited 2008	Audited 2009	Audited 2010	Project Completion 2012
<b>Current Assets</b>						
Cash	55,661	116,249	(2,206)	88,969	8,515	17,528
Accounts Receivable	446,561	567,675	562,840	689,589	731,263	764,500
Accounts Receivable - FEMA	0	0	0	496,064	0	0
Inventory	84,307	117,093	104,219	104,800	103,691	105,000
Other Current Assets	5,000	5,000	33,466	35,893	38,822	35,000
<b>Total Current Assets</b>	<b>591,529</b>	<b>806,017</b>	<b>698,319</b>	<b>1,415,315</b>	<b>882,291</b>	<b>922,028</b>
<b>Restricted Assets</b>						
Restricted Cash	377,169	393,771	322,808	446,858	211,581	277,381
<b>Utility Plant</b>						
Land, System, Building and Equipment	34,061,299	35,773,690	36,825,008	37,492,499	38,421,467	42,171,554
Less Accumulated Depreciation ( )	(9,535,854)	(10,850,088)	(12,188,480)	(13,602,680)	(14,919,058)	(15,015,709)
<b>Net Fixed Assets</b>	<b>24,525,445</b>	<b>24,923,602</b>	<b>24,636,528</b>	<b>23,889,819</b>	<b>23,502,409</b>	<b>27,155,845</b>
<b>Other Assets</b>						
Prepaid Interest	98,410	98,410	98,410	98,410	98,410	98,410
Unamortized Bond Costs and Discount, Net	(12,301)	(14,762)	(17,222)	(19,682)	(22,142)	(27,062)
Prepaid Insurance	20,252	29,127	0	0	0	0
<b>Total Other Assets</b>	<b>106,361</b>	<b>112,775</b>	<b>81,188</b>	<b>78,728</b>	<b>76,268</b>	<b>71,348</b>
<b>Total Assets</b>	<b>25,600,504</b>	<b>26,236,165</b>	<b>25,738,843</b>	<b>25,830,720</b>	<b>24,672,549</b>	<b>28,426,603</b>
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
Accounts Payable	580,127	771,666	558,896	811,347	683,680	725,316
Customer Deposits	69,322	70,953	81,127	88,149	95,508	101,324
Note Payable Line of Credit	0	0	0	300,000	250,000	0
Current Portion Long Term Debt	287,248	693,961	428,373	520,659	415,444	237,376
Accounts Payable Construction in Progress	5,000	5,000	5,000	5,000	5,000	5,000
Other	71,974	87,559	85,574	115,124	6,767	7,040
<b>Total Current Liabilities</b>	<b>1,013,671</b>	<b>1,629,139</b>	<b>1,158,970</b>	<b>1,840,279</b>	<b>1,456,399</b>	<b>1,076,057</b>
<b>Long Term Liabilities</b>						
Notes Payable - Net	3,609,310	3,166,963	3,246,420	2,918,800	2,776,040	2,711,039
Bonds Payable - Net	2,655,500	3,204,317	3,162,561	3,117,944	3,556,523	3,449,786
<b>Total Long Term Liabilities</b>	<b>6,264,810</b>	<b>6,371,280</b>	<b>6,408,981</b>	<b>6,036,744</b>	<b>6,332,563</b>	<b>6,160,825</b>
<b>Total Liabilities</b>	<b>7,278,481</b>	<b>8,000,419</b>	<b>7,567,951</b>	<b>7,877,023</b>	<b>7,788,962</b>	<b>7,236,882</b>
<b>Retained Earnings:</b>						
Invested in Capital Assets Net of Related Debt	18,059,496	17,942,009	17,713,600	16,917,292	16,497,635	20,899,811
Restricted	309,306	316,412	322,809	446,859	211,581	277,381
Unrestricted	(46,779)	(22,675)	134,483	589,546	174,371	12,528
<b>Total Retained Earnings</b>	<b>18,322,023</b>	<b>18,235,746</b>	<b>18,170,892</b>	<b>17,953,697</b>	<b>16,883,587</b>	<b>21,189,721</b>
<b>Total Liabilities and Equity</b>	<b>25,600,504</b>	<b>26,236,165</b>	<b>25,738,843</b>	<b>25,830,720</b>	<b>24,672,549</b>	<b>28,426,603</b>
<b>Balance Sheet Analysis</b>						
Current Ratio	0.58	0.49	0.60	0.77	0.61	0.86
Debt to Equity	0.40	0.44	0.42	0.44	0.46	0.34
Working Capital	(422,142)	(823,122)	(460,651)	(424,964)	(574,108)	(154,028)
Percent of Total Assets in Working Capital	-1.65%	-3.14%	-1.79%	-1.65%	-2.33%	-0.54%
Days Sales in Accounts Receivable	52.4	54.9	48.3	60.4	58.4	58.4



**EXHIBIT 1**  
**SOUTHERN WATER AND SEWER DISTRICT (Dec)**  
**CASH FLOW ANALYSIS**

	Audited 2006	% Change	Audited 2007	% Change	Audited 2008	% Change	Audited 2009	% Change	Audited 2010	Projected 2011	Projected 2012	Projected 2013	Projected 2014	Projected 2015
<b>Operating Revenues</b>														
Water	2,298,081	22%	2,794,144	13%	3,146,302	-1%	3,128,472	10%	3,456,654	3,456,654	3,560,354	4,147,985	4,147,985	4,147,985
Sewer	73,364	11%	81,114	7%	86,903	25%	108,875	-2%	107,020	107,020	210,720	123,073	123,073	123,073
Solid Waste	739,568	21%	896,251	14%	1,021,945	-9%	926,839	8%	1,005,394	1,005,394	1,005,394	1,156,203	1,156,203	1,156,203
New Sewer Customers									0	0	0	73,710	73,710	73,710
<b>Total Revenues</b>	<b>3,111,013</b>	<b>21%</b>	<b>3,771,509</b>	<b>13%</b>	<b>4,255,150</b>	<b>-2%</b>	<b>4,164,186</b>	<b>10%</b>	<b>4,569,068</b>	<b>4,569,068</b>	<b>4,776,467</b>	<b>5,500,971</b>	<b>5,500,971</b>	<b>5,500,971</b>
<b>Operating Expenses</b>														
Operating Expenses	1,665,513	6%	1,769,452	6%	1,884,204	13%	2,122,009	12%	2,379,401	2,474,577	2,573,560	2,728,099	2,888,820	3,055,970
Purchased Water	196,279	42%	278,768	34%	372,303	-12%	326,688	80%	589,275	601,061	613,082	625,344	637,851	650,608
Solid Waste Payments	739,568	21%	896,252	13%	1,015,395	-3%	980,576	-1%	975,233	1,005,394	1,005,394	1,156,203	1,156,203	1,156,203
Depreciation	1,291,079	4%	1,341,806	3%	1,380,588	2%	1,414,200	0%	1,419,130	1,447,482	1,476,432	1,601,435	1,633,463	1,666,132
Replacement Reserve	4,400		4,400		4,400		4,400		4,400	4,400	4,400	9,900	9,900	9,900
Fund Reserve Deficit											57,000	57,000	57,000	57,000
<b>Total Expenses</b>	<b>3,896,839</b>	<b>10%</b>	<b>4,290,678</b>	<b>9%</b>	<b>4,656,890</b>	<b>4%</b>	<b>4,847,873</b>	<b>11%</b>	<b>5,367,439</b>	<b>5,532,914</b>	<b>5,729,868</b>	<b>6,177,981</b>	<b>6,383,237</b>	<b>6,595,813</b>
<b>Net Operating Income</b>	<b>(785,826)</b>	<b>-34%</b>	<b>(519,169)</b>	<b>-23%</b>	<b>(401,740)</b>	<b>70%</b>	<b>(683,687)</b>	<b>17%</b>	<b>(798,371)</b>	<b>(963,846)</b>	<b>(953,400)</b>	<b>(677,010)</b>	<b>(882,266)</b>	<b>(1,094,842)</b>
<b>Non-Operating Income and Expenses</b>														
Interest on Investments	1,557	290%	6,068	-13%	5,302	-26%	3,948	76%	6,936	3,500	3,500	3,500	3,500	3,500
Other	0		9,706		0		(37,286)		6,244	0	0	0	0	0
<b>Total Non-Operating Income &amp; Expenses</b>	<b>1,557</b>		<b>15,774</b>		<b>5,302</b>		<b>(33,338)</b>		<b>13,180</b>	<b>3,500</b>	<b>3,500</b>	<b>3,500</b>	<b>3,500</b>	<b>3,500</b>
<b>Add Non-Cash Expenses</b>														
Depreciation	1,291,079	4%	1,341,806	3%	1,380,588	2%	1,414,200	0%	1,419,130	1,447,482	1,476,432	1,601,435	1,633,463	1,666,132
<b>Cash Available for Debt Service</b>	<b>506,810</b>	<b>65%</b>	<b>838,411</b>	<b>17%</b>	<b>984,150</b>	<b>-29%</b>	<b>697,175</b>	<b>-9%</b>	<b>633,939</b>	<b>487,136</b>	<b>526,531</b>	<b>927,925</b>	<b>754,697</b>	<b>574,790</b>
<b>Debt Service (enter as positive #'s)</b>														
Existing Debt Service	520,578		557,930		601,924		563,595		850,106	935,945	510,173	465,102	452,070	451,027
Proposed KIA Loan											3,830	43,879	43,879	43,879
<b>Total Debt Service</b>	<b>520,578</b>		<b>557,930</b>		<b>601,924</b>		<b>563,595</b>		<b>850,106</b>	<b>935,945</b>	<b>514,003</b>	<b>508,982</b>	<b>495,949</b>	<b>494,906</b>
<b>Income After Debt Service</b>	<b>(13,768)</b>		<b>280,481</b>		<b>382,226</b>		<b>133,580</b>		<b>(216,167)</b>	<b>(448,809)</b>	<b>12,528</b>	<b>418,943</b>	<b>258,748</b>	<b>79,884</b>
<b>Debt Coverage Ratio</b>	<b>0.97</b>		<b>1.50</b>		<b>1.64</b>		<b>1.24</b>		<b>0.75</b>	<b>0.52</b>	<b>1.02</b>	<b>1.82</b>	<b>1.52</b>	<b>1.16</b>