

# Rubin & Hays

ATTORNEYS AT LAW

Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410  
Telephone (502) 569-7525 Telefax (502) 569-7555 www.rubinhays.com

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

February 18, 2014

RECEIVED

FEB 20 2014

PUBLIC SERVICE  
COMMISSION

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

Re: Adair County Water District, d/b/a Columbia/Adair Utilities District  
PSC Case No. 2014-00020

Dear Mr. Derouen:

Enclosed please find the original and ten copies of the District's Response to Staff's First Request for Information.

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

Sincerely,

Rubin & Hays

By   
W. Randall Jones

WRJ:jlm  
Enclosures

cc: David Bowles, P.E.,  
Monarch Engineers  
Mr. Robert Flowers,  
Adair County Water District

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**RECEIVED**  
FEB 20 2014  
PUBLIC SERVICE  
COMMISSION

In the matter of:

**APPLICATION OF THE ADAIR COUNTY )**  
**WATER DISTRICT FOR A CERTIFICATE OF )**  
**PUBLIC CONVENIENCE AND NECESSITY )**  
**TO CONSTRUCT A WATER IMPROVEMENTS ) Case No. 2014 -00020**  
**PROJECT AND TO ISSUE SECURITIES IN THE )**  
**APPROXIMATE AMOUNT OF \$1,085,000 TO )**  
**FINANCE SAID PROJECT PURSUANT TO )**  
**KRS 278.020 AND 278.300 )**

**Response to Staff's First Request For Information**

The Adair County Water District (the "District"), by counsel, hereby files it's Response to Commission Staff's First Request for Information, each response and any accompanying exhibits being prepared by David Bowles, P.E. of Monarch Engineering, Inc., the engineers for the District, as follows:

1. Response No. 1: The reference to KRWFC in paragraph 14 of the original Application was in error and should instead refer to the federally assisted Drinking Water State Revolving Loan Fund ("DWSRF").

2. Response No. 2: The Assistance Agreement has not been executed - see the email communication from Ms. Tammy McCall of the Kentucky Infrastructure Authority ("KIA"), a copy of which is attached hereto as **Exhibit "A"**.

3. Response No. 3: The discrepancy between the amount of eight-inch water line is due to the fact that the 5,400 linear foot quantity was a preliminary estimate and upon further investigation, including excavation, it was determined that 6,900 linear feet was necessary.

4. Response No. 4 (a): The Downtown Area and Longhunters Area are both included in Phase 1 - Section 1.

5. Response No. 4 (b): The District is seeking a Certificate of Public Convenience and Necessity for both the Downtown Area and Longhunters Area.

6. Response No. 5 (a): The Final Cost Estimate has been revised to include funding for both the Down Area and Longhunters Area, see the attached **Exhibit "B"**.

7. Response No. 5 (b): The District is seeking approval on both the Base Bid and Alternate No. 1 projects.

8. Response No. 6: The District is seeking amending its original Application to request authorization to issue securities in the amount of \$2,000,000, see the attached **Exhibit "B"**.

9. Response No. 7 (a): The District is seeking authorization to issue securities in the amount of \$2,000,000 which will provide funding for the Downtown Area and Longhunters Area projects. The remaining phases of the overall Project will be bid in approximately six months, at which time the District will file another Application seeking the approval to issue securities in the amount of the remainder of the DWSRF Loan (\$2,000,000) and the issuance of another Certificate of Public Convenience and Necessity.

10. Response No. 7 (b): The DWSRF Loan will be amortized over a 30 year period. The reference to a 20 year term on page 2, paragraph no. 4 of the Conditional Commitment Letter of KIA was in error.

11. Response No. 7 (c): The estimated annual debt service on the DWSRF loan was calculated by KIA and is in Paragraph IV of Attachment A to the Conditional Commitment Letter, see the attached **Exhibit "C"**.

The undersigned, Counsel to the District, hereby certifies that the above Responses to Staff's First Information Request were prepared by the undersigned on behalf of the District, and that each Response is true and accurate to the best of my knowledge, information and belief formed after a reasonable inquiry. The undersigned, as well as Mr. David Bowles are available to answer any additional questions on the Project and financing.

Dated this February 18, 2014.

Rubin & Hays

By   
W. Randall Jones  
Kentucky Home Trust Building  
450 South Third Street  
Louisville, Kentucky 40202  
(502) 569-7525



**Randy Jones**

---

**From:** McCall, Tammy (KIA) [Tammy.McCall@ky.gov]  
**Sent:** Monday, February 17, 2014 8:40 AM  
**To:** Randy Jones  
**Subject:** RE: Lewis County Sanitation District

Randy,

The F12-04 loan for \$4M to the Adair Co Water District d/b/a Columbia/Adair Utilities District for the Downtown Water System improvements is not under an Assistance Agreement yet. The Conditional Commitment was extended to 5/2/14. It looks like they are very close to construction and will probably not require the whole extension period. Once construction contracts are signed and ready to start, the loan will then be placed under an Assistance Agreement.

If you need anything further, please let me know.

Tammy

---

**From:** Randy Jones [mailto:wrjones@rubinhays.com]  
**Sent:** Friday, February 14, 2014 10:59 AM  
**To:** McCall, Tammy (KIA)  
**Subject:** RE: Lewis County Sanitation District

Thanks Tammy – you guys working Monday?

*Randy Jones*  
W. Randall Jones, Esq.  
Rubin & Hays  
450 South Third Street, Suite 300  
Louisville, Kentucky 40202  
Phone: (502) 569-7534  
Fax: (502) 569-7555  
email: [wrjones@rubinhays.com](mailto:wrjones@rubinhays.com)

---

**From:** McCall, Tammy (KIA) [mailto:Tammy.McCall@ky.gov]  
**Sent:** Friday, February 14, 2014 8:15 AM  
**To:** Randy Jones  
**Subject:** Re: Lewis County Sanitation District

Randy,

I was out yesterday and will still be out of the office today but will send that to you on Monday. Sorry for the delay in answering.

Sent from my iPhone

On Feb 13, 2014, at 3:55 PM, "Randy Jones" <[wrjones@rubinhays.com](mailto:wrjones@rubinhays.com)> wrote:

Hi Tammy,

I am sorry to ask, but as I stated in my voice message to you, the PSC is asking for a signed copy of the KIA Assistance Agreement for the Adair County Water District in connection with the \$4,000,000 DWSRF (Fund F) loan. The conditional commitment letter was issued on November 12, 2012.

Please email me a copy of the Agreement when you get a chance.

Thanks so much for your help.

*Randy Jones*

W. Randall Jones, Esq.  
Rubin & Hays  
450 South Third Street, Suite 300  
Louisville, Kentucky 40202  
Phone: (502) 569-7534  
Fax: (502) 569-7555  
email: [wrjones@rubinhays.com](mailto:wrjones@rubinhays.com)

---

**From:** McCall, Tammy (KIA) [<mailto:Tammy.McCall@ky.gov>]  
**Sent:** Tuesday, January 28, 2014 4:27 PM  
**To:** Randy Jones  
**Subject:** RE: Lewis County Sanitation District

Attached please find the Assistance Agreement for Lewis County Sanitation District A99-01. If you need anything further, please let me know!

Have a good day!  
Tammy

---

**From:** Randy Jones [<mailto:wrjones@rubinhays.com>]  
**Sent:** Tuesday, January 28, 2014 3:59 PM  
**To:** McCall, Tammy (KIA)  
**Subject:** RE: Lewis County Sanitation District

Yes, if you can email it to me, that would be great.

*Randy Jones*

W. Randall Jones, Esq.  
Rubin & Hays  
450 South Third Street, Suite 300  
Louisville, Kentucky 40202  
Phone: (502) 569-7534  
Fax: (502) 569-7555  
email: [wrjones@rubinhays.com](mailto:wrjones@rubinhays.com)

---

**From:** McCall, Tammy (KIA) [<mailto:Tammy.McCall@ky.gov>]  
**Sent:** Tuesday, January 28, 2014 3:57 PM  
**To:** Randy Jones  
**Subject:** RE: Lewis County Sanitation District

Mr. Jones,

This email was just now brought to my attention. Do you still need a copy of the Assistance Agreement?

**Tammy McCall**

Financial Analyst  
Kentucky Infrastructure Authority  
1024 Capital Center Drive Suite 340  
Frankfort, KY 40601  
502-573-0260, ext. 232

---

**From:** Randy Jones [<mailto:wrjones@rubinhays.com>]

**Sent:** Tuesday, January 14, 2014 11:29 AM

**To:** LeFevre, John

**Subject:** Lewis County Sanitation District

Hi John,

I am representing the Lewis County Sanitation District in connection with an upcoming USDA project.

I see in their financial statements that the District has an outstanding loan with KIA (originally made around 2002).

If it's not too much trouble, would you email me a copy of the Assistance Agreement? I need it to submit to the USDA representative.

Thanks for your help.

W. Randall Jones, Esq.  
Rubin & Hays  
450 South Third Street, Suite 300  
Louisville, Kentucky 40202  
Phone: (502) 569-7534  
Fax: (502) 569-7555  
email: [wrjones@rubinhays.com](mailto:wrjones@rubinhays.com)

7

**FINAL COST ESTIMATE  
PROPOSED WATER SYSTEM IMPROVEMENTS  
DOWNTOWN WATER SYSTEM IMPROVEMENTS PHASE 1 - SECTION 1  
COLUMBIA / ADAIR UTILITIES DISTRICT  
DECEMBER 2013**

**BASE CONTRACT PORTION & ALTERNATE NO. 1**

**PROJECT COSTS**

DEVELOPMENT	\$860,720.00
ALTERNATE NO. 1	764,700.00
CONTINGENCY	152,137.61
ENGINEERING DESIGN (8.10%)	131,659.02
CONSTRUCTION INSPECTION (4.97%)	80,783.37
LEGAL & ADMINISTRATIVE	<u>10,000.00</u>
<b>TOTAL PROJECT COSTS</b>	<b>2,000,000.00</b>

**PROJECT FINANCING**

KENTUCKY INFRASTRUCTURE AUTHORITY	<u>\$2,000,000.00</u>
<b>TOTAL PROJECT FINANCING</b>	<b>2,000,000.00</b>

NOTE: TOTAL FUNDS AVAILABLE FROM KIA \$4,000,000.00





**KENTUCKY INFRASTRUCTURE AUTHORITY**

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

**Steven L. Beshear**  
Governor

**John E. Covington III**  
Executive Director

November 29, 2012

VIA EMAIL

The Honorable Robert Flowers, Chairman  
Adair County Water District dba Columbia / Adair Utilities District  
109 Grant Lane, PO Box 567  
Columbia, Kentucky 42728

**KENTUCKY INFRASTRUCTURE AUTHORITY  
FEDERALLY ASSISTED DRINKING WATER REVOLVING LOAN FUND  
CONDITIONAL COMMITMENT LETTER (F12-04)  
REVISED**

Dear Chairman Flowers:

The Kentucky Infrastructure Authority ("the Authority") commends your efforts to improve public service facilities in your community. On November 1, 2012, the Authority approved your loan for the Downtown Water System Improvements project subject to the conditions stated below. The total cost of the project shall not exceed \$4,000,000 of which the Authority loan shall provide \$4,000,000 of the funding. 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 Adair County Water District dba Columbia / Adair Utilities District upon satisfactory performance of the conditions set forth in this letter. A period of twelve months from the date of this letter (11/2/2013) 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 \$4,000,000.
2. The loan shall contain principal forgiveness in the amount of 35%. 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 0.75% per annum commencing with the first draw of funds.
4. The loan shall be repaid over a period not to exceed 30 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 0.25% 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 "F" 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 performed 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.
10. An environmental review shall be conducted by the Division of Water for all construction projects receiving DWSRF funds, within the term of this binding commitment and prior to project bid.
11. Technical plans and specifications and a complete DWSRF 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 DWSRF 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.

Chairman Robert Flowers  
November 29, 2012  
Page 5

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,

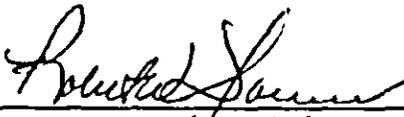


Sandy Williams  
Financial Analyst

**Attachments**

cc: Lennon Stone, Adair County Water District dba Columbia / Adair Utilities District  
David Bowles, PE, Monarch Engineering, Inc.  
Division of Water  
Dirk Bedarff, Peck, Shaffer & Williams LLP  
State Local Debt Office, DLG  
Borrower File - Adair County Water District dba Columbia / Adair Utilities District -  
F12-04

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

11-30-12

Date

**ATTACHMENT A**

**Adair County Water District dba Columbia / Adair Utilities District  
F12-04**

<b>EXECUTIVE SUMMARY</b> KENTUCKY INFRASTRUCTURE AUTHORITY FUND F, FEDERALLY ASSISTED DRINKING WATER REVOLVING LOAN FUND		Reviewer Date KIA Loan Number WRIS Number	Sandy Williams November 1, 2012 F12-04 WX21001024	
<b>BORROWER</b>	ADAIR COUNTY WATER DISTRICT DBA COLUMBIA / ADAIR UTILITIES DISTRICT ADAIR COUNTY			
<b>BRIEF DESCRIPTION</b>				
This project consists of the installation of approximately 5,400 linear feet (LF) of eight inch and 38,000 LF of six inch waterline to replace existing undersized and asbestos-cement water lines in the Tutt Street Area, the Longhunters Subdivision in the KY Highway 80 East Area and other areas in downtown Columbia. The waterline replacements will affect approximately 1,200 existing customers of which approximately 420 will also have their meters replaced with radio read meters.				
<b>PROJECT FINANCING</b>		<b>PROJECT BUDGET</b>		
Fund F Loan	\$4,000,000	RD Fee %	Actual %	
		Legal Expenses	30,000	
		Eng - Design	239,000	
		Eng - Constr / Insp	131,000	
		Eng - Other	30,000	
		Construction	3,243,800	
		Contingency	326,200	
<b>TOTAL</b>	<b>\$4,000,000</b>	<b>TOTAL</b>	<b>\$4,000,000</b>	
<b>REPAYMENT</b>	Rate	0.75%	Est. Annual Payment	
	Term	30 years	\$103,444	
			1st Payment 6 Mo. after first draw	
<b>PROFESSIONAL SERVICES</b>	Engineer	Monarch Engineering, Inc.		
	Bond Counsel	Peck, Shaffer, & Williams		
<b>PROJECT SCHEDULE</b>	Bid Dpening	May-13		
	Construction Start	Jul-13		
	Construction Stop	May-14		
<b>DEBT PER CUSTOMER</b>	Existing	\$2,818		
	Proposed	\$3,479		
<b>OTHER DEBT</b>	See Attached			
<b>OTHER STATE-FUNDED PROJECTS LAST 5 YRS</b>	See Attached			
<b>RESIDENTIAL RATES</b>		<u>Users</u>	<u>Avg Bill</u>	
	Current	7,602	\$33.90 (for 4,000 gallons)	
	Additional	0	\$33.90 (for 4,000 gallons)	
<b>REGIONAL COORDINATION</b>	This project is consistent with regional planning recommendations.			
<b>CASHFLOW</b>	Cash Flow Before Debt Service	Debt Service	Cash Flow After Debt Service	Coverage Ratio
Pro Forma 2011	775,955	1,046,445	(270,490)	0.7
Projected 2012	1,486,679	1,132,361	354,318	1.3
Projected 2013	1,485,450	1,413,983	71,467	1.1
Projected 2014	1,648,150	1,578,349	69,801	1.0
Projected 2015	1,696,350	1,626,878	69,474	1.0
Projected 2016	1,669,250	1,691,672	(22,422)	1.0
Projected 2017	1,722,050	1,652,831	69,219	1.0

**KENTUCKY INFRASTRUCTURE AUTHORITY  
DRINKING WATER STATE REVOLVING FUND (FUND "F")  
ADAIR COUNTY WATER DISTRICT dba COLUMBIA / ADAIR UTILITIES DISTRICT  
ADAIR COUNTY  
PROJECT REVIEW  
WX21001024**

**I. PROJECT DESCRIPTION**

The Adair County Water District dba Columbia / Adair Utilities District (District) is requesting a Fund "F" loan for \$4,000,000 for Phase 1 of the Downtown System Improvements project. The project consists of the installation of approximately 5,400 linear feet (LF) of eight inch and 38,000 LF of six inch waterline to replace existing undersized and asbestos-cement water lines in the Tutt Street Area, the Longhunters Subdivision in the KY Highway 80 East Area and other areas in downtown Columbia. The waterline replacements will affect approximately 1,200 existing customers of which approximately 420 will also have their meters replaced with radio read meters.

The District is regulated by the Public Service Commission, serves all of Adair County and has approximately 7,600 water customers of which 1,600 within the City of Columbia are also sewer customers. In July 2011 the City of Columbia's sewer and water operations were merged into the District. Completion of a merger of the Columbia / Adair County Water Commission into the District is expected in late 2012 or early 2013. The District has operated the Commission's water treatment plant under a negotiated agreement since January 2011.

**II. PROJECT BUDGET**

	<u>Total</u>
Legal Expenses	30,000
Engineering Fees - Design	239,000
Engineering Fees - Const / Inspection	131,000
Engineering Fees - Other	30,000
Construction	3,243,800
Contingency	<u>326,200</u>
<b>Total</b>	<b>\$ 4,000,000</b>

**III. PROJECT FUNDING**

	<u>Amount</u>	<u>%</u>
Fund F Loan	\$ 4,000,000	100%
<b>Total</b>	<b>\$ 4,000,000</b>	<b>100%</b>

#### IV. KIA DEBT SERVICE

Construction Loan	\$ 4,000,000
Less: Principal Forgiveness (35%)	<u>1,400,000</u>
Amortized Loan Amount	\$ 2,600,000
Interest Rate	0.75%
Loan Term (Years)	30
Estimated Annual Debt Service	\$ 96,944
Administrative Fee (0.25%)	<u>6,500</u>
<b>Total Estimated Annual Debt Service</b>	<b>\$ 103,444</b>

#### V. PROJECT SCHEDULE

Bid Opening	May 2013
Construction Start	July 2013
Construction Stop	May 2014

#### VI. CUSTOMER COMPOSITION AND RATE STRUCTURE

##### A. Customers

	<u>Current</u>
Residential	7,448
Commercial	<u>154</u>
	7,602

##### B. Rate Structure

	<u>City</u>	<u>Previous</u>
Date of Last Rate Increase	02/03/12	11/01/09
Minimum (First 2,000 gallons)	\$19.90	\$15.35
Next 3,000 gallons (000s)	7.00	5.75
Next 5,000 gallons (000s)	6.25	5.00
Next 15,000 gallons (000s)	5.20	3.90
All over 25,000 gallons (000s)	4.45	3.15
Cost for 4,000 gallons	\$33.90	\$26.85
% Increase from Previous	26.3%	2.3%
Affordability Index (Rate/MHI)	1.4%	

#### VII. DEMOGRAPHICS

Based on current Census data from the American Community Survey 5-Year Estimate 2006-2010, the County's population was 18,542 with a Median Household Income

(MHI) of \$29,834. The median household income for the Commonwealth is \$41,576. The project will qualify for a .75% interest rate.

### **VIII. 2011 CAPITALIZATION GRANT EQUIVALENCIES**

- 1) Green Project Reserve - This project qualifies for Green Project Reserve (GPR) funding for \$3,243,800. The breakdown of the GPR to the respective "green" categories is listed below:
  - a. Green Infrastructure - \$0
  - b. Water Efficiency - \$3,243,800
  - c. Energy Efficiency - \$0
  - d. Environmentally Innovative - \$0
  
- 2) Additional Subsidization – This project qualifies for additional subsidization in the amount of \$1,400,000.

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

Pro forma financial information is presented to show the combined financial structure of the District and the Commission. We could not obtain sufficient information from the audits for the District, the City and the Commission to eliminate transactions between them to prepare a meaningful pro-forma historical analysis for years prior to 2011. Financial information for the District and the Commission was obtained from their audited financial statements. Amounts were estimated for the City (their audit was incomplete) for the portion of 2011 that they still owned the sewer and water utilities.

On May 3, 2010, the District entered into an asset purchase agreement to acquire the water and sewer systems from the City of Columbia. The District operated the system under a lease arrangement until the July 21, 2011 merging closing date.

On December 9, 2010, the District and the Columbia / Adair County Water Commission entered into an agreement to merge operations. The District will be the surviving entity after the merger with the Commission. Completion of the merger is anticipated in late 2012 or early 2013. Prior to their merger, the District and the City of Columbia were the only customers of the Commission.

#### **PRO FORMA 2011**

Revenues were \$3.6 million in 2011. Water and sewer revenues were \$2.9 million and \$600 thousand, respectively. Other revenues were \$100 thousand. Customer growth averages about 1% per year. Water rates increased 26% in February 2012 which will increase revenues about \$750,000 per year. The increase is primarily to support several capital projects that are in process. Water and sewer operating expenses in 2011 were \$2.2 million and \$600 thousand, respectively, for a total of \$2.8 million. The debt coverage ratio was 0.7 with negative cash flow from operations of \$270 thousand. The sewer operation had about \$174 thousand unfavorable cash flow after debt service while the water operation was \$96 thousand unfavorable.

The balance sheet reflects a current ratio of 0.4, debt to equity of 0.9, days sales in accounts receivable of 30 and one month of operating expenses in unrestricted cash. Reserves are maintained for bond sinking funds, depreciation / repairs and customer deposits.

**PROJECTED**

Projections are based on the following assumptions:

- 1) Revenues assume customer growth of 1.0% per year and periodic rate increases to offset inflation.
- 2) Sewer rates will be increased prior to the beginning of 2014 to offset the existing expense deficit which is estimated at about \$90,000.
- 3) Expenses will increase 2.5% annually for inflation.
- 4) The cash flow forecast does not assume any additional debt service beyond this proposed loan, previously approved KIA loans and two RD loans (\$595,000 and \$1.2 million) for both District and Commission projects that were in process at the end of 2011.
- 5) A replacement reserve of \$10,000 (on this loan) will be funded annually for ten years.
- 6) Debt service on the new KIA loan will be \$103,444 beginning in 2014.

Debt service coverage is 1.0 in 2015 which represents the first full year of full principal and interest repayments on the loan. Based on the proforma assumptions, the utility shows adequate cash flow to repay the proposed loan.

**REPLACEMENT RESERVE**

The annual replacement cost is \$10,000. This amount should be added to the replacement account each December 1 until the balance reaches \$100,000 and maintained for the life of the loan.

**X. DEBT OBLIGATIONS**

	<u>Outstanding</u>	<u>Maturity</u>	<u>Borrower</u>
1974 Waterworks Revenue Bond	\$ 12,000	2014	District
1975 Waterworks Revenue Bond	22,000	2015	District
1977 Water District Revenue Bond	250,000	2016	District
1978 Waterworks Revenue Bond	138,000	2018	District
1985 Water District Revenue Bond	790,000	2025	District
1988 Revenue Bond Series A	530,955	2028	District
1988 Revenue Bond Series B	131,788	2028	District
1989 Water District Revenue Bond	115,000	2022	District
1992 Water District Revenue Bond	567,000	2032	District
1995 Water District Revenue Bond	344,000	2035	District
1995 Revenue Bond	99,900	2034	District
1998 Water District Revenue Bond	364,000	2035	District

	Outstanding	Maturity	Borrower
2000 Revenue Bond	444,700	2040	District
2003 Water District Revenue Bond	574,500	2042	District
2004 Revenue Bond	459,000	2043	District
2005 Water District Revenue Bond	1,152,000	2045	District
2007 Water District Revenue Bond	726,000	2046	District
2008 Revenue Bond	112,300	2047	District
2009 Water District Revenue Bond	1,100,000	2050	District
KIA (F07-01)	862,417	2028	District
Interim Financing - Local Bank	2,281,485	TBD	District
Short Term Debt - Local Bank	225,000	TBD	District
Short Term Debt - Local Bank	50,000	TBD	District
2006 Waterworks Revenue Bond	3,333,000	2045	Commission
2008 Waterworks Revenue Bond	296,800	2048	Commission
KIA (F06-01)	3,794,878	2028	Commission
KIA (F10-02)	1,679,765	2031	Commission
Interim Financing - Local Bank	963,759	TBD	Commission
KIA (F10-01, \$4.0M)	0	2032	District
KIA (F11-10, \$0.9M)	0	TBD	District
Rural Development ({F11-10}, \$0.595M)	0	TBD	District
Rural Development ({F10-02}, \$1.2M)	0	TBD	Commission
<b>Total</b>	<b>\$21,420,247</b>		

**XI. OTHER STATE OF FEDERAL FUNDING IN PAST FIVE YEARS**

<u>Project Title</u>	<u>Funding Source</u>	<u>Amount</u>	<u>Type</u>
Shepherd Water System	HB380 (2006)	1,000,000	Grant
Shepherd Water System	USDA	550,000	Grant
Columbia Bypass and Tank	USDA	608,000	Grant
Columbia Bypass and Tank	HB608 (2008)	1,225,000	Grant
Columbia Bypass and Tank	EDA	1,500,000	Grant

**XII. CONTACTS**

<b>Legal Applicant</b>	
Name	Adair County Water District dba Columbia / Adair Utilities District
Address	109 Grant Lane, PO Box 567 Columbia, Kentucky 42728
County	Adair
Authorized Official	Danny Downey (Chairman)
Phone	(270) 384-2181
Email	Danny.Downey@caud.net

**Project Administrator**

Name Adair County Water District dba Columbia / Adair Utilities District  
Address 109 Grant Lane, PO Box 567  
Columbia, Kentucky 42728  
Contact Lennon Stone  
Phone (270) 384-2181  
Email lenny.stone@caud.net

**Consulting Engineer**

Name David Bowles, PE  
Firm Monarch Engineering, Inc.  
Address 556 Carlton Dr  
Lawrenceburg, KY 40342  
Phone (502) 839-1310  
Email dbowles@monarchengineering.net

**XIII. RECOMMENDATIONS**

KIA staff recommends approval of the loan with the standard conditions.

**ADAIR COUNTY WATER DISTRICT DBA COLUMBIA / ADAIR UTILITIES DISTRICT  
BALANCE SHEETS (DECEMBER YEAR END)**

<b>ASSETS</b>	<b>Pro Forma 2011</b>	<b>Projected 2012</b>	<b>Projected 2013</b>	<b>Upon Completion 2014</b>
<b>Current Assets</b>				
Cash	190,215	544,533	616,000	685,801
Accounts Receivable	294,509	352,600	356,900	377,500
Inventory	179,916	180,000	180,000	180,000
Prepaid	8,659	8,500	8,500	8,500
Other Current Assets	33,431	0	0	0
<b>Total Current Assets</b>	<b>706,730</b>	<b>1,085,633</b>	<b>1,161,400</b>	<b>1,251,801</b>
<b>Restricted Assets</b>				
Investments	1,105,006	1,207,261	1,210,412	1,215,412
Repair and Replacement Reserve (KIA)	0	36,800	87,850	156,400
<b>Total Restricted Assets</b>	<b>1,105,006</b>	<b>1,244,061</b>	<b>1,298,262</b>	<b>1,371,812</b>
<b>Utility Plant</b>				
Land, System, Building and Equipment	62,026,424	67,053,665	70,607,665	74,607,665
Less Accumulated Depreciation ( )	(15,341,947)	(16,931,947)	(18,761,947)	(20,701,947)
<b>Net Fixed Assets</b>	<b>46,684,477</b>	<b>50,121,718</b>	<b>51,845,718</b>	<b>53,905,718</b>
<b>Total Assets</b>	<b>48,496,213</b>	<b>52,451,412</b>	<b>54,305,380</b>	<b>56,529,331</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts Payable	202,289	260,000	250,000	250,000
Customer Deposits	34,586	35,000	35,000	35,000
Current Portion Long Term Debt	564,289	620,927	650,928	666,365
Notes Payable	425,000	225,000	225,000	225,000
Deferred Credit	398,593	398,593	398,593	398,593
Other	73,618	67,300	67,300	67,300
Interest Payable	310,023	86,000	84,000	80,000
<b>Total Current Liabilities</b>	<b>2,008,398</b>	<b>1,692,820</b>	<b>1,710,821</b>	<b>1,722,258</b>
<b>Long Term Liabilities</b>				
Notes and Bonds Payable	17,335,714	16,714,787	16,063,859	15,397,494
Notes Payable - KIA	0	4,000,000	4,900,000	7,500,000
Notes Payable - RD	0	2,659,000	2,659,000	2,659,000
Interim Financing	3,095,244	0	0	0
<b>Total Long Term Liabilities</b>	<b>20,430,958</b>	<b>23,373,787</b>	<b>23,622,859</b>	<b>25,556,494</b>
<b>Total Liabilities</b>	<b>22,439,356</b>	<b>25,066,607</b>	<b>25,333,680</b>	<b>27,278,752</b>
<b>Retained Earnings:</b>				
Invested in Capital Assets Net of Related Debt	25,040,132	25,816,004	27,262,931	27,377,859
Restricted	1,105,006	1,244,061	1,298,262	1,371,812
Unrestricted	(88,281)	324,740	410,507	500,908
<b>Total Retained Earnings</b>	<b>26,056,857</b>	<b>27,384,805</b>	<b>28,971,700</b>	<b>29,250,579</b>
<b>Total Liabilities and Equities</b>	<b>48,496,213</b>	<b>52,451,412</b>	<b>54,305,380</b>	<b>56,529,331</b>
<b>Balance Sheet Analysis</b>				
Current Ratio	0.4	0.6	0.7	0.7
Debt to Equity	0.9	0.9	0.9	0.9
Days Sales in Accounts Receivable	30.0	30.0	30.0	30.0

## EXHIBIT 1

**ADAIR COUNTY WATER DISTRICT DBA COLUMBIA / ADAIR UTILITIES DISTRICT  
CASH FLOW ANALYSIS (DECEMBER YEAR END)**

	Pro Forma 2011	% Change	Projected 2012	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017
<b>Operating Revenues</b>								
Water Service Charges	2,859,851	25%	3,581,742	3,618,000	3,654,200	3,877,800	3,916,600	4,034,100
Sewer Service Charges	584,995	-1%	578,633	584,400	683,700	690,500	697,400	704,400
Other	143,668		130,000	140,000	141,400	145,600	147,100	151,500
	0		0	0	114,000	0	0	0
<b>Total Revenues</b>	<b>3,588,514</b>	<b>20%</b>	<b>4,290,375</b>	<b>4,342,400</b>	<b>4,593,300</b>	<b>4,713,900</b>	<b>4,781,100</b>	<b>4,890,000</b>
<b>Operating Expenses</b>								
Purchased Water	0	0%	0	0	0	0	0	0
Water Expenses	2,223,323	3%	2,288,696	2,315,400	2,373,300	2,432,600	2,493,400	2,555,700
Sewer Expenses	596,457	-16%	500,000	512,500	525,300	538,400	551,900	565,700
Depreciation	1,727,727	16%	2,000,000	1,830,000	1,940,000	2,065,000	2,065,000	2,065,000
Replacement Reserve	36,800		36,600	51,050	68,550	68,550	68,550	68,550
<b>Total Expenses</b>	<b>4,584,307</b>	<b>5%</b>	<b>4,825,696</b>	<b>4,706,950</b>	<b>4,907,150</b>	<b>5,104,550</b>	<b>5,178,850</b>	<b>5,254,950</b>
<b>Net Operating Income</b>	<b>(995,793)</b>	<b>-46%</b>	<b>(535,321)</b>	<b>(368,550)</b>	<b>(313,850)</b>	<b>(390,650)</b>	<b>(417,750)</b>	<b>(364,950)</b>
<b>Non-Operating Income and Expenses</b>								
Interest Income	8,197	-76%	2,000	2,000	2,000	2,000	2,000	2,000
Lease (Operating Agreement - Columbia)	0		0	0	0	0	0	0
Lease (Operating Agreement - CACWC)	0		0	0	0	0	0	0
Other	35,824		20,000	20,000	20,000	20,000	20,000	20,000
<b>Total Non-Operating Income &amp; Expenses</b>	<b>44,021</b>	<b>-50%</b>	<b>22,000</b>	<b>22,000</b>	<b>22,000</b>	<b>22,000</b>	<b>22,000</b>	<b>22,000</b>
<b>Add Non-Cash Expenses</b>								
Depreciation	1,727,727	16%	2,000,000	1,630,000	1,940,000	2,065,000	2,065,000	2,065,000
<b>Cash Available for Debt Service</b>	<b>775,955</b>	<b>92%</b>	<b>1,486,679</b>	<b>1,485,450</b>	<b>1,648,150</b>	<b>1,696,350</b>	<b>1,669,250</b>	<b>1,722,050</b>
<b>Debt Service (enter as positive #s)</b>								
Existing Debt	1,046,445		1,132,361	1,182,819	1,194,951	1,191,758	1,185,841	1,147,000
KIA (F10-01) (District)	0		0	231,164	231,164	231,164	231,164	231,164
KIA (F11-10) (District)	0		0	0	52,012	52,012	52,012	52,012
RD (F11-10) (District)	0		0	0	0	0	70,711	70,711
KIA (F10-02) (Commission)	0		0	0	0	0	0	0
RD (F10-02) (Commission)	0		0	0	48,500	48,500	48,500	48,500
Proposed Loan (F12-04) - Downtown	0		0	0	51,722	103,444	103,444	103,444
<b>Total Debt Service</b>	<b>1,046,445</b>		<b>1,132,361</b>	<b>1,413,983</b>	<b>1,576,349</b>	<b>1,628,876</b>	<b>1,691,672</b>	<b>1,652,831</b>
<b>Income After Debt Service</b>	<b>(270,490)</b>		<b>354,318</b>	<b>71,467</b>	<b>69,801</b>	<b>69,474</b>	<b>(22,422)</b>	<b>69,219</b>
<b>Debt Coverage Ratio</b>	<b>0.7</b>		<b>1.3</b>	<b>1.1</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>