

Rubin & Hays

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

PARALEGAL
MARY M. EMBRY

June 14, 2005

RECEIVED

JUN 16 2005

PUBLIC SERVICE
COMMISSION

Ms. Beth O'Donnell
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

CASE NO. 2005-00227

Re: Letcher County Water and Sewer District - Public Service Commission Application

Dear Ms. O'Donnell:


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

Also enclosed are eleven (11) copies of the exhibits required, with the exception of the Preliminary and Final Engineering Reports two (2) are enclosed.

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

Sincerely,

Rubin & Hays

By 
W. Randall Jones

WRJ:jlm
Enclosures
cc: Distribution List

DISTRIBUTION LIST

Account No. 611.0000

**Re: Letcher County Water and Sewer District Waterworks Revenue Bonds, Series
2005 in the principal amount of \$830,000**

Mr. Kenneth H. Slone
State Director
Rural Development
771 Corporate Drive, Suite 200
Lexington, Kentucky 40503-5477

Telephone: (859) 224-7336
Fax: (859) 224-7425

Mr. Barry Turner
Rural Development
95 South Laurel Road, Suite A
London, Kentucky 40744

Telephone: (606) 864-2172
Fax: (606) 878-7717

Mr. Jim Tolliver
Letcher County Water and Sewer District
P.O. Box 827
Whitesburg, Kentucky 41858

Telephone: (606) 633-2129

Mr. Stephen Caudill
Howard K. Bell Consulting Engineers, Inc.
354 Waller Avenue
P.O. Box 546
Lexington, Kentucky 40588-0546

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Damon R. Talley, Esq.
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450 South Third Street
Louisville, Kentucky 40202

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Fax: (502) 569-7555

COMMONWEALTH OF KENTUCKY

RECEIVED

BEFORE THE PUBLIC SERVICE COMMISSION

JUN 16 2005

PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LETCHER COUNTY WATER AND SEWER DISTRICT FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO CONSTRUCT, FINANCE AND INCREASE RATES PURSUANT TO KRS 278.023

)) Case No. 2005-00227))))

APPLICATION

This Application of the Letcher County Water and Sewer District ("Applicant") of Letcher County, Kentucky, respectfully shows:

1. That Applicant is a water and sewer district of Letcher County, 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:

Letcher County Water and Sewer District
c/o Mr. Don Profitt, Chairman
P.O. Box 827
Whitesburg, Kentucky 41858

3. That Applicant, pursuant to the provisions of KRS 278.020 and 278.023, seeks (i) a Certificate of Public Convenience and Necessity permitting Applicant to construct a water project, consisting of extensions, additions, and improvements (the "Project") to the existing water system of Applicant; (ii) an Order approving the proposed plan of financing said Project; and (iii) an Order approving increased water rates.

4. That the Project consists of the construction and installation of approximately 148,460 linear feet of water line; one booster pumping station; and one 250,000 gallon water storage tank with appurtenances.

5. That Applicant proposes to finance the construction of the Project through (i) the issuance of \$830,000 of its Waterworks Revenue Bonds; (ii) a Rural Development ("RD") grant in the amount of \$900,000; (iii) an Appalachian Regional Commission ("ARC") grant in the amount of \$500,000; (iv) a Community Development Block Grant ("CDBG") in the amount of \$939,000;

and (v) an Abandoned Mine Land ("AML") grant in the amount of \$960,000. Applicant has a commitment from RD to purchase said \$830,000 of bonds maturing over a 40-year period, at an interest rate of not exceeding 4.50% per annum, 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:

EXHIBIT A. Copy of RD Letter of Conditions, as amended.

EXHIBIT B. Copy of RD Letter of Concurrence in Bid Award.

EXHIBIT C. Certified statement from the Chairman of Applicant, based upon statements of the Engineers for Applicant, 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 proposed 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.

Applicant also files herewith two (2) copies of Preliminary and Final Engineering Reports.

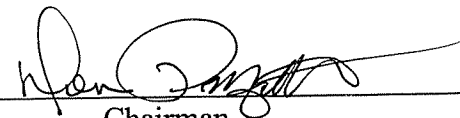
8. That Applicant has arranged for the publication, prior to or at the same time this Application is filed, of a Notice of Proposed Rate Increase pursuant to Section 2 of 807 KAR 5:069, in the *Mountain Eagle*, which is the newspaper of general circulation in Applicant's service area and in Letcher County, Kentucky. Said Notice sets out the current rates and the proposed rates of Applicant and a short description of the Project. A copy of said Notice is filed herewith as **EXHIBIT D.**

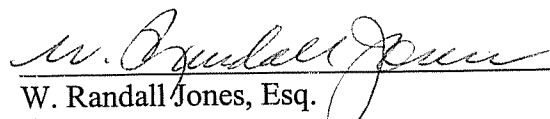
9. That the foregoing constitutes the documents necessary to obtain the approval of the Kentucky Public Service Commission in accordance with Section 278.023 of the Kentucky Revised Statutes and in accordance with the "Minimum Filing Requirements" specified in 807 KAR 5:069.

WHEREFORE, Applicant, the Letcher County 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 water project consisting of extensions, additions, and improvements to the water system of Applicant.
- b. An Order approving the financing arrangements made by Applicant, viz., the issuance of (i) \$830,000 of Letcher County Water and Sewer District Waterworks Revenue Bonds at an interest rate of not exceeding 4.50% per annum; (ii) a RD grant in the amount of \$900,000; (iii) an ARC grant in the amount of \$500,000; (iv) a CDBG grant in the amount of \$939,000; and (v) an AML grant in the amount of \$960,000.
- c. An Order approving the proposed increased rates as set out in Section 25 of the RD Letter of Conditions, as amended, filed herewith as an Exhibit.

Letcher County Water and Sewer District

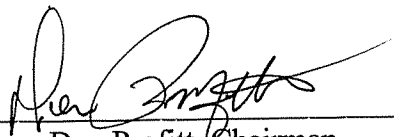
By: 
Chairman
Board of Water Commissioners


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 LETCHER)

The undersigned, Don Profitt, being duly sworn, deposes and states that he is the Chairman of the Board of Commissioners of the Letcher County Water and Sewer District, Applicant, in the above proceedings; that he has read the foregoing Application and has noted the contents thereof; that the same is true of his own knowledge, except as to matters which are therein stated on information or belief, and as to those matters, he believes same to be true.

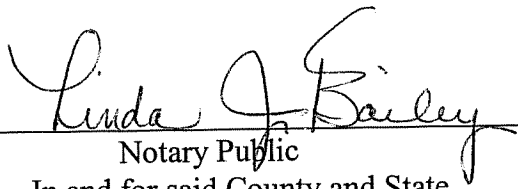
IN TESTIMONY WHEREOF, witness the signature of the undersigned on this June 9, 2005.



Don Profitt, Chairman
Letcher County Water and Sewer District

Subscribed and sworn to before me by Don Profitt, Chairman of the Board of Commissioners of the Letcher County Water and Sewer District, on this June 9, 2005.

My Commission expires: 7/21/06.



Notary Public
In and for said County and State



February 15, 2002

Mr. James McCauley, Chairman
Letcher County Water and Sewer District
P.O. Box 827
Whitesburg, Kentucky 41858

Dear Mr. McCauley:

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/or 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/or 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 \$830,000, a RUS grant not to exceed \$900,000, an Appalachian Regional Commission (ARC) grant of \$300,000, a Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) of \$939,000, and a State Coal Severance Fund grant of \$1,000,000.

If Rural Development makes the loan, you may make a written request that the interest rate be the lower of the rate in effect at the time of loan approval or the time of loan closing. If you do not request the lower of the two interest rates, the interest rate charged will be the rate in effect at the time of loan approval. 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. If you want the lower of the two rates, your written request should be submitted to Rural Development as soon as practical. In order to avoid possible delays in loan closing, such a request should ordinarily be submitted at least 30 days before loan closing.

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 240 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:

1. Number of Users and Their Contribution:

There shall be 750 water users. Loan funds in the amount of \$49,000 will be used to: (1) establish an Initial Operating and Maintenance Account in the amount of \$25,000; and (2) the balance of \$24,000 will be deposited in an Operation and Maintenance Reserve Account at the time of loan pre-closing. The Initial Operation and Maintenance Reserve Account will be established to assure continued operation of the system during the first five (5) years of operation. During this period, funds not to exceed \$5,000 per year may be used from the Initial O&M Reserve Account to meet any deficit in paying principal, interest or meeting O&M expenses. At the end of five (5) years of operation, any remaining balance in the Initial O&M Reserve Account will be transferred to the Depreciation Reserve Account.

The Rural Development Manager will review and authenticate the number of users prior to advertising for construction bids. No contribution is required from the Water District.

1a. 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.

1b. Drug-Free Work Place:

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

2. 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 1st and July 1st) and principal will be due on or before the first of January. Rural Development may require the Water 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.

3. Recommended Repayment Method:

Payments on this loan can 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 SF 5510, "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 Rural Development Manager will furnish the necessary forms and further guidance on the PAD procedure.

4. Funded Depreciation Reserve Account:

The Water District will be required to deposit \$385.00 per month into a "Funded Depreciation Reserve Account" until the account reaches \$46,200. The deposits are to be resumed any time the account falls below the \$46,200.

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.

5. Security Requirements:

A pledge of gross water revenue will be provided in the Bond Resolution.

6. Land Rights and Real Property:

The Water 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.

7. Organization:

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

8. Business Operations:

The Water 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 Water District after review by Rural Development. At no later than loan pre-closing, the Water 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, bookkeeping, making and delivering required reports and audits.

9. Accounts, Records and Audits:

The Water District will be required to maintain adequate records and accounts and submit statistical and financial reports, quarterly and annually, in accordance with subsection 1780.47 of RUS Instruction 1780 and RUS Staff Instruction 1780-4, a copy of which is enclosed. The enclosed audit booklet will be used as a guide for preparation of audits. The Water 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. The Water 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 Water District shall obtain the assistance of its accountant to establish the Water District's accounting system. Rural Development review of the accounting system is required.

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

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

11. 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 Water District. The Water District should obtain amounts of coverage as recommended by its attorney, consulting engineer and/or insurance provider.
- B. Worker's Compensation - The Water District will carry worker's compensation insurance for employees in accordance with applicable state laws.
- C. Fidelity Bond - The Water 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 \$46,000.
- D. Real Property Insurance - The Water 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 Water 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 Water District will obtain and maintain adequate coverage on any facilities located in a special flood and mudslide prone areas.

12. 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 "22" of this letter. The engineer may then proceed to develop final plans and specifications to be completed no later than 210 days from this date, and prepare bid documents. The Rural Development Manager is prepared to furnish the necessary guide for him 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 Water 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.

13. Compliance with Section 504 of the Rehabilitation Act of 1973:

The Water District will be required to comply with Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), in order to make sure no handicapped individual, solely by reason of their handicap, is excluded from participation in the use of the water system, be denied the benefits of the water system, or be subjected to discrimination.

14. 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 Water District.

15. Compliance with Special Laws and Regulations:

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

16. System Operator:

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

17. Prior to Pre-Closing the Loan, the Water 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. FmHA Instruction 1940-Q, Exhibit A-1, "Certification for Contracts, Grants and Loans."

The Water District must offer the opportunity for all residents in the service area to become users of the facilities regardless of race, creed, color, religion, sex, national origin, marital status, physical or mental handicap or level of income.

18. Refinancing and Graduation Requirements:

The Water District is reminded that if at any time it shall appear to the Government that the Water 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 Water District will apply for and accept such loan in sufficient amount to repay the Government.

19. Commercial Interim Financing:

The Water 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 Water 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.

20. Disbursement of Project Funds:

A construction account for the purpose of disbursement of project funds (RUS) will be established by the Water 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.

During construction, the Water 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 Water 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 Water District.

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

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

21. 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 Water District. Interest earned on grant funds in excess of \$100 (as applicable) per year will be submitted to RUS at least quarterly, as required in 7CFR part 3016 (as applicable).

22. Cost of Facility:

Breakdown of Costs:

Development	\$ 3,110,000
Land and Rights	8,000
Legal and Administrative	60,000
Engineering	372,000
Interest	75,000
Initial O&M	25,000
Initial O&M Reserve	24,000
Contingencies	<u>295,000</u>
TOTAL	\$ <u>3,969,000</u>

Financing:

RUS Loan	\$ 830,000
RUS Grant	900,000
ARC Grant	300,000
HUD-CDBG	939,000
State Coal Severance Fund Grant	<u>1,000,000</u>
TOTAL	\$ 3,969,000

23. Debt Collection Improvement Act (DCIA) of 1996:

The Debt Collection Improvement Act (DCIA) of 1996 requires that all federal payments after January 1, 1999, must be made by Electronic Funds Transfer/Automated Clearing House (EFT/ACH). Borrowers receiving payments 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.

24. Use of Remaining Project Funds:

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

25. Rates and Charges:

Rates and charges for facilities and services rendered by the Water District must be at least adequate to meet cost of maintaining, repairing and operating the water 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 @ \$	20.54. - Minimum Bill.
All Over	2,000	gallons @ \$	4.75 - per 1,000 gallons.

26. Water Purchase Contract:

The Water District will submit a Water Purchase Contract for approval by Rural Development before advertising for construction bids. If the contract is not on Form RD 442-30, "Water Purchase Contract," the contract will require approval by our Regional Attorney. The contract must meet the requirements of subsection 1780.62 of RUS Instruction 1780.

27. Commitment of ARC, HUD-CDBG and State Coal Severance Fund Grants:

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 \$300,000, for the HUD-CDBG grant in the amount of \$939,000, and for the State Coal Severance Fund grant in the amount of \$1,000,000.

28. Floodplain Construction:

The Water District will be required to pass and adopt a Resolution or amend its By-Laws whereby the Water District will deny any water 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 Water 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.

29. Mitigation Measures:

- A. The Water District shall be required to comply with the requirements of the Kentucky State Clearinghouse as detailed by letter to Ms. Gail Kilgore, dated October 14, 1999, and subsequent updates, and signed by Mr. Ronald W. Cook.
- B. The Water District shall be required to comply with the requirements, if any, of the U.S. Fish and Wildlife Service as requested by letter dated July 13, 2001, and signed by Lee A. Barclay, Ph.D., Field Supervisor.
- C. The Water District will comply with all applicable executive orders and regulations that are applicable to the preservation of prime farmlands and wetlands.

30. Final Approval Conditions:

Final approval of this loan 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.

Letcher County water and Sewer District

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

Sincerely,



KENNETH SLONE
State Director
Rural Development

Enclosures

cc: Rural Development Manager - London, Kentucky
Community Development Manager - Hazard, Kentucky
Kentucky River ADD - Hazard, Kentucky
Damon Tally - Hodgenville, Kentucky
Rubin and Hays - Louisville, Kentucky
Maxim Engineering, Inc. - Coeburn, Virginia
PSC - ATTN: Bob Amato - Frankfort, Kentucky



United States Department of Agriculture
Rural Development
Kentucky State Office

June 6, 2005

Mr. Don Proffitt, Chairman
Letcher County Water and Sewer District
P.O. Box 827
Whitesburg, Kentucky 41858

Re: Letter of Conditions Dated February 15, 2002

Dear Mr. Proffitt:

This letter shall serve as Amendment No. 1 to the Letter of Conditions dated February 15, 2002. The purpose of this amendment is to revise the project funding, cost of the facility, and rates and charges, and decrease the number of users required at loan closing.

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 loan not to exceed \$830,000, a RUS grant not to exceed \$900,000, an Appalachian Regional Commission (ARC) grant of \$500,000, a Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) of \$939,000, and an Abandoned Mine Land Grant of \$960,000. ”

Paragraph numbered “1” is revised to read as follows:

“ 1. Number of Users and Their Contribution:

There shall be 670 water users. Loan funds in the amount of \$15,000 will be used to establish an Operation and Maintenance (O&M) Reserve Account at the time of loan pre-closing. Funds from this account may be used to fund deficit O&M expenses, principal and interest payments, and other miscellaneous expenses as needed. If these funds are not needed at the end of five years of operation, any remaining balance will be transferred to the Depreciation Reserve Account.

The Area Director will review and authenticate the number of users prior to advertising for construction bids. No contribution is required from the Water District. ”

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>

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, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-6964 (voice or TDD).

Letcher County Water and Sewer District

Page 2

Paragraph numbered "22" is revised to read as follows:

" 22. Cost of Facility:

Breakdown of Costs:

Development	\$ 3,538,900
Land and Rights	8,000
Legal and Administrative	65,000
Engineering	328,000
Interest	50,000
O&M Reserve Account	15,000
Contingencies	<u>124,100</u>
TOTAL	\$ 4,129,000

Financing:

RUS Loan	\$ 830,000
RUS Grant	900,000
ARC Grant	500,000
HUD-CDBG	939,000
Abandoned Mine Land Grant	<u>960,000</u>
TOTAL	\$ 4,129,000 "

Paragraph numbered "25" is revised to read as follows:

" 25. Rates and Charges:

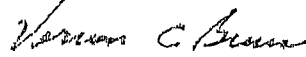
Rates and charges for facilities and services rendered by the Water District must be at least adequate to meet cost of maintaining, repairing and operating the water system and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

Water rates will be at least:

First 2,000 gallons @ \$ 22.00 - Minimum Bill.
 All Over 2,000 gallons @ \$ 6.00 - pcr 1,000 gallons. "

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

Sincerely,



KENNETH SLONE
 State Director

cc: Area Director - London, Kentucky
 Rural Development Manager - Hazard, Kentucky
 Kentucky River ADD - Hazard, Kentucky
 Damon Talley - Hodgenville, Kentucky
 Rubin and Hays - Louisville, Kentucky
 Howard K. Bell - Lexington, Kentucky
 PSC - ATTN: Bob Amato - Frankfort, Kentucky



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

June 7, 2005

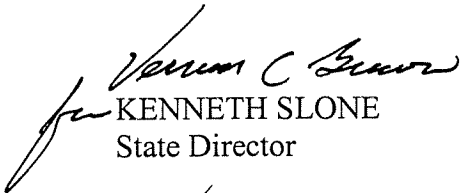
SUBJECT: Letcher County Water and Sewer District
Concurrence in Contract Award

TO: Area Director
London, Kentucky

Based on the bids received and the recommendation of the consulting engineer, Rural Development concurs in the award of the following subject contracts to the respective low bidders:

Contract No. 519-04-02 to Welding, Inc., in the amount of \$345,000,
Contract No. 519-04-01, Area I, to Akins Excavating, in the amount of \$1,528,190.20
Contract No. 519-04-01, Area II, to Kenney, Inc., in the amount of \$1,665,711.25

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


KENNETH SLONE
State Director

cc: ✓ Rubin and Hays
Louisville, Kentucky

Howard K. Bell
Lexington, Kentucky

**CERTIFICATE OF CHAIRMAN OF THE LETCHER COUNTY WATER AND SEWER
DISTRICT AS TO STATEMENT REQUIRED BY
SECTION 1(5) OF 807 KAR 5:069**

I, Don Profitt, hereby certify that I am the duly qualified and acting Chairman of the Letcher County Water and Sewer District of Letcher County, Kentucky, and that said District is in the process of arranging to finance the construction of extensions, additions and improvements to the water system of the District (the "Project"), in cooperation with Howard K. Bell Consulting Engineers, 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 proposed by the District in its current Application filed with the Public Service Commission of Kentucky 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 July 1, 2005, and will end on or about December 31, 2005.

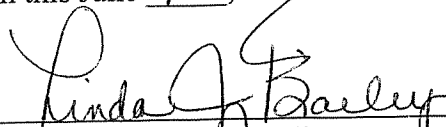
IN TESTIMONY WHEREOF, witness my signature this June 9th, 2005.



Chairman
Letcher County Water and Sewer District

STATE OF KENTUCKY)
) SS
COUNTY OF LETCHER)

Subscribed and sworn to before me by Don Profitt, Chairman of the Board of Commissioners of the Letcher County Water and Sewer District, on this June 9th, 2005.



Notary Public
In and For Said State and County

NOTICE OF PROPOSED RATE INCREASE

In accordance with the requirements of the Public Service Commission of the Commonwealth of Kentucky as set out in 807 KAR 5:069, Section 2, notice is hereby given to the customers of the Letcher County Water and Sewer District of an increase to the District's water rate schedule as set forth herein. The proposed rate increase is required by the Rural Development in connection with a loan by RD to the District in the amount of \$830,000 to be evidenced by the issuance by the District of its Waterworks Revenue Bonds in such amount, which RD has agreed to purchase provided the District meets certain conditions of RD, including increasing water rates as set forth below:

Current Monthly Rates

First 2,000 gallons	\$20.54 minimum bill
All over 2,000 gallons	4.75 per 1,000 gallons

Proposed Monthly Rates

First 2,000 gallons	\$22.00 minimum bill
All over 2,000 gallons	6.00 per 1,000 gallons

The RD loan proceeds will be used in conjunction with (i) an RD grant in the amount of \$900,000; (ii) a ARC grant in the amount of \$500,000; (iii) a CDBG grant in the amount of \$939,000; and (iv) an AML grant in the amount of \$960,000 to finance the cost of extensions, additions and improvements to the existing waterworks system of the District, consisting of (a) construction of a 250,000 gallon storage tank, (b) construction of a new booster pump station, and (c) installation of approximately 148,460 linear feet of water distribution line and appurtenances.
Signed: Don Proffitt, Chairman, Letcher County Water and Sewer District